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McNamara Papers

Travel b
Apr. 19

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1772906

A1995-259 Other #. 27

Travel Briefings Nepal - Travel briefs 01

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1. What is the outlook for the May election (Panchyat system vs. Political Parties) and what is the possibility of political disorder following the election?
2. What are the prospects for resuming sound economic development policies (resource mobilization; exchange rate; anti-inflation; etc.) all of which have suffered because of the forthcoming election, after the election has been completed?
3. After allowing for inflation no real growth is projected for public revenues in 1979-80. What are the government's plans for the future? Can incomes of public sector enterprises be increased? What plans are there for maintaining tariffs in proper relationship to an 18% inflation rate?
4. What is the effect of and outlook for petroleum shortage? Will it affect project implementation (particularly Kulekhani) and consumption goods availability and prices (for example, cooking fuel, firewood and sugar)?
5. On my last visit in 1973 we discussed the need to:
 - a. Give greater priority in the investment program to areas outside of Kathmandu, in which live 96% of the population but which had received only 60% of the investment. I understand some shift of emphasis has occurred. How much has been the shift and what are the plans for the future?
 - b. Raise the productivity of the Hill people. (There was a discussion of livestock production above 7000 feet and horticultural production below 7000 feet). What progress has been achieved? Is it now thought that emphasis should be placed on food production to assure the Hill people can meet minimum food requirements?
5. Deforestation has been a major problem. Apparently the environment continues to deteriorate steadily. What action has been taken or could be taken to prevent this?
6. What progress has been made in increasing mobility through construction of north/south feeder roads? And what progress has been made in linking the country politically and socially by telecommunications?
7. Why was not the irrigation potential of the Terai more fully developed during the Fifth Plan? And will it be accomplished during the Sixth Plan? Agricultural performance has been disappointing and has held down economic growth to 2 1/4% versus a planned level of 4 1/2%.
8. What progress has been made in discussions with India on joint development of Nepal's hydroelectric potential, particularly Karnali?
9. In 1973 we emphasized the need to develop a pipeline of projects sufficiently large to support the proposed Bank lending program. In 1980 we will fail to meet the program level. Is the pipeline adequate to support the future lending program, particularly the \$90 million scheduled for commitment in 1981?

Rmsed

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 - 4. Minister of Water, Power and Irrigation
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- I. Reference Material: Economic Report "Nepal-Development Performance and Prospects" (Report No. 2692-NEP, 1979).

Notes of Previous Meetings

South Asia Programs
Division C
March 26, 1980

A

532/5/33

Ran

ROBERT S. McNAMARA

Dick Abbott - Home 14944

NEPAL VISIT

Office 14792

APRIL 19-22, 1980

Car available: 6:45 AM

DETAILED SCHEDULE

Dwarika Hotel Rest.
Boris Rest.
Shumsher Room
D. 418
Car - 412

Saturday, April 19

1515 Arrival IC247 from Calcutta. To be met by Vice Chairman, National Planning Commission (NPC), Dr. Ratna Shumsher J.B. Rana, the Secretary, Mr. G.B.B. Pradhan and Joint Secretary, Foreign Aid and Programme Division, Mr. H.S. Shrestha, Ministry of Finance, the UNDP Resident Representative, Mr. John Melford, and World Bank Resident Representative, Mr. R.G. Abbott.

1700 Briefing at Yak and Yeti Hotel by Bank Resident Representative, Mr. Abbott.

Sunday, April 20

0850 Depart Yak and Yeti for World Bank Office.

0900 Briefing by Mr. D. Mitchnik (UNDP expert) on Rasuwa-Nuwakot Rural Development Project.

0950 Depart Bank Office for NPC (at Singha Durbar).

Outlook for...
entire...
1000 1. ...
3 slots between ...
social services

1000 Meeting with NPC Vice Chairman, Dr. R.S. Rana and members, Dr. M.M. Sainju (Agriculture Sector), Prof. U.M. Malla (Social Sectors), Dr. B.B. Pradhan (Industry, Power and Transport), and Dr. N.N. Singh (member-secretary; Administration, Programming and construction).

1120 Depart NPC for Prime Minister's Office.

1130 Meeting with Prime Minister/Finance Minister, Mr. Surya Bahadur Thapa, and Secretary Finance, Mr. G.B.N. Pradhan.

1220 Depart for Yak and Yeti

1230 Arrive Yak and Yeti

B

532/5/32

64-68	0	70	7
69-73	40	71	3
74-78	143	72	4
79-84	340	73	14
	<u>5</u>	74	14
		75	0
		76	34
		77	28

Airport Arrival Statement

NEPAL

I am delighted to be in Nepal and greatly appreciate the opportunity to visit your beautiful and fascinating country again. I am also looking forward to meeting His Majesty the King and other leaders of your ~~country~~ ^{government}. From these meetings, I hope to acquire a deeper understanding of the economic situation and of the policies that you are adopting to stimulate the economic and social progress of Nepal.

78 87
79 40
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81 9/84
84 76

Since 1969, the World Bank Group has provided over \$200.0 million for projects in Nepal, ^{last year alone our financial commitments totalled 40 million.} related to agriculture, power, telecommunications, highways, tourism, water supply, and technical education. Most of our assistance has been in agriculture, ^{the investments financed by the Bank relate} which provides the livelihood for the overwhelming majority of the population. ^{measured} Since transportation and communication difficulties have hindered the growth of ^{the economy, particularly the growth?} industry and trade, we have also provided assistance for two highway projects and three telecommunications projects. ^{Our} I am pleased to say that ^{on} lending activities ^{for} for Nepal should continue to increase. During the coming few months we expect to negotiate approximately US\$65 million for projects in forestry, agriculture, irrigation, and drinking water supply and sewerage.

As you know, the bulk of the resources -- human and material -- for development comes from within the developing countries themselves. In line with your readiness to ^{initiate} implement the necessary and often difficult ^{actions} measures that constitute the basis of any serious development effort, we are prepared to assist projects of high priority within the framework of ^{expand our efforts to assist you in accelerating the pace} ~~your economic and social advancement.~~ ^{Nepal's development program.}

South Asia Programs
Division C
March 26, 1980

C

532/5/30

background
NOTES

DOCUMENT ACQUISITION
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CONTROL SECTION

Nepal

department of state * october 1978

OFFICIAL NAME: Kingdom of Nepal

PEOPLE

Although the population density for Nepal as a whole is about 92 per square kilometer (240 per sq. mi.), distribution is extremely uneven. About one-third of the population lives in the Terai region of the Ganges Basin Plain, and about two-thirds live in the central or hilly region. The mountainous highlands are sparsely populated. Kathmandu Valley, in the central region, constitutes a small fraction of the nation's area but is the most densely populated, with almost 5 percent of the total population. Within the city of Kathmandu, the capital and focal point of the nation's political

life, population density sometimes exceeds 30,000 persons per square kilometer (77,000 per sq. mi.).

The Nepalese are descendants of three major migrations from India, Tibet, and central Asia. In addition to the Brahmans and Chetris, whose ancestors came from India, are many tribes (called castes in Nepal) from central Asia and Tibet. Gurungs and Magars live in the west; Tamangs and Newars in the center; Bhotias in the north; Rais, Limbus, and Sherpas in the east; and Tharus in the south.

In the Terai, much of the population is physically and culturally identical with or similar to the Indo-Aryan peoples of northern India. In



the hill region, people of both Indo-Aryan and Mongoloid stock can be

PROFILE

People

POPULATION: 13.4 million (1978 est.). **URBAN:** 5 percent. **ANNUAL GROWTH RATE:** 2.5 percent. **ETHNIC GROUPS:** Brahmans, Chetris, Gurungs, Magars, Tamangs, Newars, Bhotias, Rais, Limbus, Sherpas. **RELIGIONS:** Hinduism (90%), Buddhism, Islam. **LANGUAGES:** Nepali, and more than 12 others. **EDUCATION:** Years compulsory—3. Percentage attendance—20. Literacy—20%. **HEALTH:** Infant mortality rate—152 per 1,000 (US—17/1,000). Life expectancy—40 yrs.

Geography

AREA: 145,391 square kilometers (56,136 sq. mi.); slightly larger than Ark. **CITIES:** Capital—Kathmandu; Pokhara, Biratnagar, Birganj.

Government

TYPE: Constitutional monarchy. **DATE OF CONSTITUTION:** December 16, 1962. **BRANCHES:** Executive—King (Chief of State), Prime Minister (Head of Government). **Legislative**—National Panchayat. **Judicial**—Supreme Court. **POLITICAL PARTIES:** None. **SUFFRAGE:** Tiered voting system, with universal suffrage for first tier. **ADMINISTRATIVE SUBDIVISIONS:** 14 Zones and 75 Districts. **DEFENSE:** 1.1% of GDP. **FLAG:** Two red triangles edged with blue pointing away from staff, with symbols for the sun and moon in white.

Economy

GDP: \$1.4 billion (FY 77/78 est.). **ANNUAL GROWTH RATE:** 2.2%. **PER CAPITA INCOME:** \$108. **AVG. RATE OF**

INFLATION LAST 4 YEARS: 13.2%. **NATURAL RESOURCES:** Water, timber, hydroelectric potential, scenic beauty.

AGRICULTURE: Products—rice, maize, wheat, millet, jute, sugarcane, oilseed, potatoes.

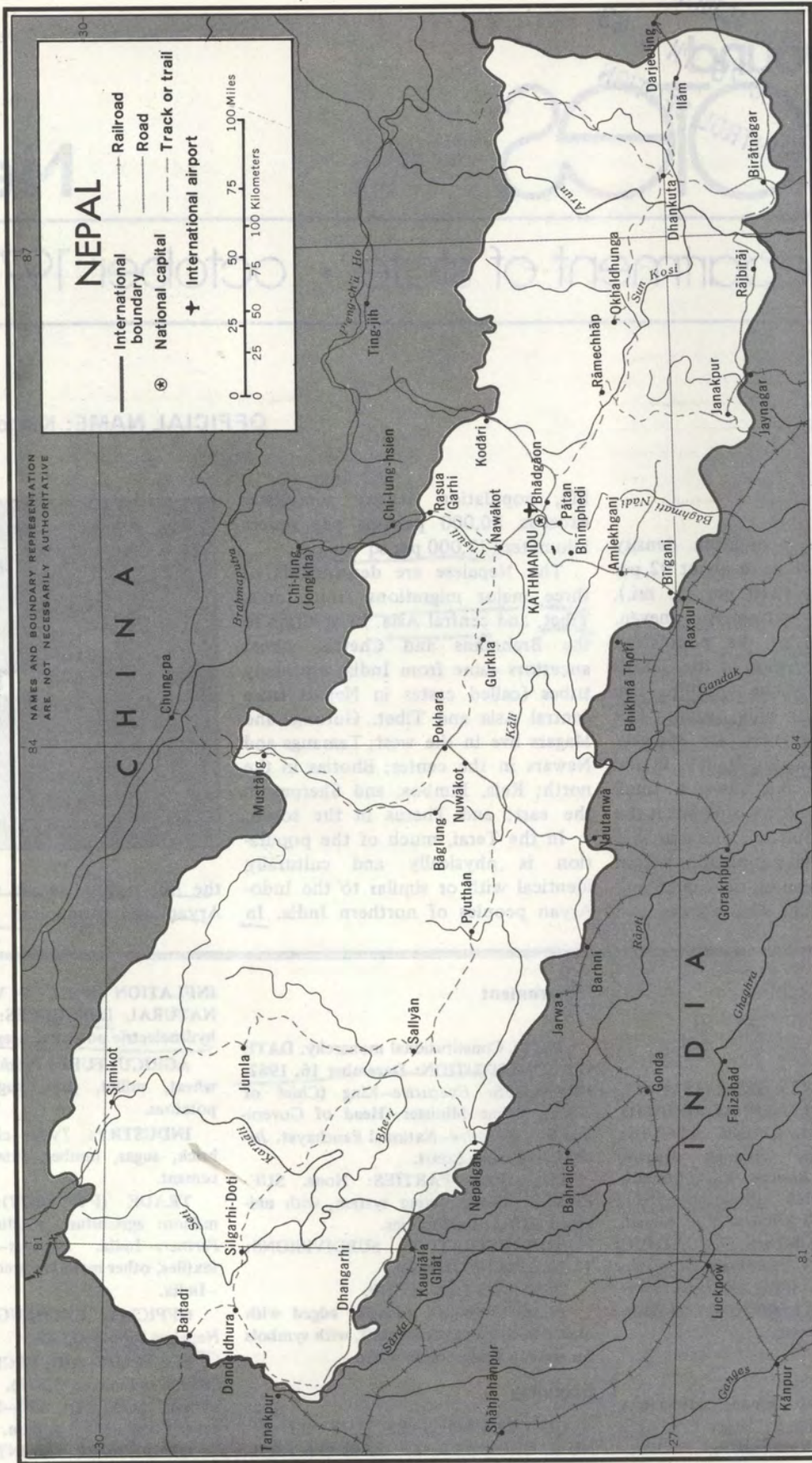
INDUSTRY: Types—cigarette, match, brick, sugar, lumber, jute, hydroelectric, cement.

TRADE (FY 76/77): Exports—\$98 million: agricultural products and timber. Partners—India. Imports—\$169 million: textiles, other manufactured goods. Partners—India.

OFFICIAL EXCHANGE RATE: 12 Nepalese rupees=US \$1.

ECONOMIC AID RECEIVED: Total—\$808.5 million (1952-77). US aid—\$229.7 million (1951-78); AID—\$213.5 million; Peace Corps—\$16.2 million.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN.



Note: Kathmandu is more than 13,000 kilometers (8,000 mi.) from Washington, D.C.

found, and many are a mixture of the two.

Religion is important in Nepal. Kathmandu Valley has more than 2,700 religious shrines. Temples, stupas, and pagodas vary in size and type; some are austere in their simplicity and others are rich in architectural beauty.

Officially Nepal is a Hindu Kingdom with about 90 percent of the population professing that faith. However, Hinduism has been influenced by and has had an influence on a large Buddhist minority, and a unique variation of the two religions has been created. Due to the comingling of Hindu and Buddhist customs and beliefs, Hindu temples and Buddhist shrines are mutually respected, and Buddhist and Hindu festivals are occasions for common worship and rejoicing.

Nepal also has a small number of Christians and Muslims. Some animistic practices of old indigenous religions are also evident.

Nepali is the official language, although a dozen different languages and about 30 major dialects are spoken throughout the country. Derived from Sanskrit, Nepali is related to the Indian languages of Hindi and Bengali and is spoken by about 80 percent of the population. Many Nepalese in government and business speak English.

HISTORY

Nepal was founded in the latter half of the 18th century when Prithvi Narayan Shah, the ruler of the small principality of Gurkha, forged a unified country from a number of independent mountain states. The country was frequently called the Gurkha Kingdom, and when recruitment of Nepalese soldiers for the British Indian Army began in early 1800's, the British called them "Gurkhas." The name stuck and became world famous due to the bravery of Nepalese fighters in the First and Second World Wars. Today Nepal continues to permit India and the United Kingdom to recruit Nepalese nationals for their armies.

After 1800, the heirs of Prithvi Narayan Shah proved unable to maintain firm political control over Nepal, and a period of internal turmoil fol-

Trekkers and Nepalese porters climb a trail below Machapuchare, one of the spectacular peaks of the Annapurna Himalaya.



lowed. Stability was restored when the Rana family gained power, entrenched itself through hereditary Prime Ministers, and reduced the monarch to a figurehead.

The Rana administration, a tightly centralized autocracy, pursued a conscious policy of isolating Nepal from external influences. This policy helped Nepal maintain its national independence during the colonial era, but at the same time, it precluded economic development.

Democratic currents set in motion by the independence movement in neighboring India had their impact on Nepal, and opposition to Rana rule grew in the 1930's and 1940's. Shortly after India became independent (1950-51), a popular revolution toppled the Ranas, restored King Tribhuvan (of the Shah family) to power, and paved the way for a non-Rana to become Prime Minister. The decade of the 1950's saw a period of quasiconstitutional rule during which the monarch, assisted by leaders of the fledgling political parties, governed the country. At times the government was ruled by Prime Ministers from these parties who represented a wide spectrum of views; during other periods the monarch ruled directly. King Tribhuvan was succeeded after his death in 1955 by his son, King Mahendra.

Throughout the 1950's, efforts

were made to frame a Constitution for Nepal that would establish a representative form of government, presumably patterned on a modified British model. In early 1959 such a Constitution was issued by King Mahendra, and shortly afterward the first democratic elections were held for a National Assembly.

The Nepali Congress Party, a moderate Socialist group, gained a substantial victory, and its leader, B. P. Koirala, was called upon to form a government and serve as Prime Minister.

In December 1960 King Mahendra dismissed the Koirala government, suspended the Constitution, and resumed direct rule. The King charged the Nepali Congress Party's government with corruption, misuse of power, and an inability to maintain law and order throughout the country. King Mahendra declared that Nepal was not yet ready for Western parliamentary institutions and needed a democratic political system closer to Nepalese traditions. To meet this need the King initiated, under a Constitution promulgated on December 16, 1962, a partyless system of *panchayat* (council). This system draws its theoretical inspiration from the traditional local government institution found in parts of Nepal—the *village panchayat*.

With the *panchayat* system firmly



The city of Bhadgaon is one of the ancient Valley "cities" of Nepal.

established by 1967, King Mahendra began working out an accommodation with the former political party members, and participation in the government by former political leaders has been encouraged.

The reactions to this accommodation attempt were mixed. Some former Nepali Congress Party leaders favored participation in the panchayat system while others urged continued opposition to the system.

In January 1972 King Mahendra died of a heart attack and was succeeded by his 27-year-old son, the Crown Prince Birendra, who has continued the partyless panchayat system.

GEOGRAPHY

The Kingdom of Nepal is located in central Asia along the southern slopes of the Himalayan Mountains. A landlocked country about 965 kilometers (500 mi.) long and 161 (100 mi.) wide, it is bordered by India and the Tibetan region of the People's Republic of China.

Within its borders, Nepal has three distinctly different topographical regions, each running laterally the width of the Kingdom. In the south a flat, fertile strip of territory called the Terai is part of the Ganges Basin plain. Central Nepal, known as "the hill

country," is crisscrossed by the lower ranges of the Himalayas and by swift-flowing mountain rivers. The high Himalayas form the border with Tibet in the north. Eight of the world's 10 highest peaks are in this area. The highest is Mt. Everest at 8,847 meters (29,028 ft.). Kathmandu, the capital, is located in a broad valley at 1,310 meters (4,300 ft.) in the middle hill region.

Nepal's climate ranges from subtropical summers and mild winters in the south to cool summers and severe winters in the northern mountains. At Kathmandu the average high temperature is 30°C (86°F) in May and the average low is 1.6°C (35°F) in December. The monsoon season is from June through September and brings from 75 to 150 centimeters (30-60 in.) of rain. Showers occur almost every day and sometimes continue for several days. From October through March, sunny days and cool nights prevail.

GOVERNMENT

The Constitution specifies that the King (Chief of State) is the sole source of authority for all government institutions in Nepal. He exercises broad powers over the country's panchayat system of government.

The Council of Ministers (Cabinet) is the executive arm of the government

and gives policy advice to the King. The Prime Minister (Head of Government) and Cabinet Ministers are appointed by the King from the membership of the National Panchayat (Parliament).

Nepal follows a unitary system of government. The country is divided into 14 Zones and 75 Districts. Each Zone is administered by a commissioner and assistant zonal commissioners, numbering from one to five according to the size of the Zone. All are appointed by the central government.

Under panchayat democracy a village or group of villages with a population of 2,000 or more is organized into a village assembly which elects, by secret ballot, an 11-member executive committee—the village panchayat. Similarly, a town with a population of 10,000 or more has a town panchayat. There are 20 town panchayats. Every Nepalese citizen 21 years of age or over is a member of a village or town assembly. In each of the 75 Districts is a district assembly, composed of representatives of village and town panchayats, and an 11-member district panchayat. The members of the district panchayats, in turn, elect 112 Representatives (one or two per District according to population) to the 135-Member *Rastriya* or National Panchayat. The remaining 23 Members are nominated by the King. The chairman of the National Panchayat is appointed by the King on the recommendation of its Members, and the vice chairman is elected by the Members. Meetings of the National Panchayat were recently opened to the public. Candidates at all levels must be approved by the Back-to-the-Village National Campaign Central Committee, and approved candidates are generally unopposed in elections.

The apex of the judicial system in Nepal is the Supreme Court, whose 11 judges on this court are appointed by the King.

Principal Government Officials

King—Birendra Bir Bikram Shah Dev
Queen—Aishwarya Rajya Lakshmi Devi Shah

Council of Ministers

Prime Minister; Minister of Palace

Affairs; Defense—Kirti Nidhi Bista
 Home-Panchayat—Khadga Bahadur Singh
 Food, Agriculture and Irrigation—Rabindra Nath Sharma
 Communications—Hari Bahadur Basnyat
 Law and Justice—Hom Bahadur Shrestha
 Foreign Affairs—Krishna Raj Aryal
 Without Portfolio—Damodar Shumshere J. B. Rana
 Finance—Dr. Bhekh Bahadur Thapa
 Industry and Commerce—Pitambar Dhoj Khatri
 State for Health—Padma Sunder Laoti
 Works and Transport—Balaram Gharti Magar
 Tourism—Dr. Harkha Bahadur Gurung
 Land Reform—Janak Bahadur Shah
 Water and Power—D. P. Adhikari
 Education—Pashupati Shumshere J. B. Rana
 General Administration—Shri Bhadra Sharma
 Forests—Prakash Bahadur Singh

Other Officials

Chief Justice—Nayan Bahadur Khatri
 Chairman, National Panchayat—Ram Hari Sharma
 Chairman, Standing Committee of Raj Sabha (Council of State)—Bupal Man Singh Karki
 Chairman, Back-to-the-Village National Campaign Central Committee—Vishwa Bandhu Thapa
 Chief of the Army Staff—General Guna Shumshere J. B. Rana
 Ambassador to the UN—Vacant
 Ambassador to the U.S.—General Padma Bahadur Khatri

The Kingdom of Nepal maintains an Embassy in the United States at 2131 Leroy Place NW., Washington, D.C. 20008 (tel. 202-667-4550). The Nepalese Mission to the UN in New York is at 300 E. 46th St.

POLITICAL CONDITIONS

Political parties in Nepal have been illegal since 1960 when they were banned by the King. In 1967 the Constitution was amended to include the term "partyless" in the description of the panchayat democracy.

In the past several years the government has initiated a number of social reforms including a program of land reform and a modernization of the legal code removing legal sanction for caste discrimination. However, Nepal still faces challenging political and social tasks in order to develop stable governmental institutions that can meet the needs of a modern society. The government also faces the problem of reforming social institutions and customs so that the society itself can keep abreast of internal political and economic changes underway.

Village elections are by universal adult suffrage, but the emphasis is placed on arriving at a consensus rather than upon confrontational politics.

ECONOMY

When Nepal's modern era began in 1951, the Kingdom had virtually no schools, hospitals, roads, telecommunications, electric power, industry, or civil service. Its entire economic structure was based on subsistence agriculture.

Owing to efforts by the government

Mt. Everest.



READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse unofficial publications.

- Bista, Dor Bahadur. *People of Nepal*. Kathmandu: Ratna Pustak Bhandar, 1976.
- Landon, Percival. *Nepal*. (First published in London, 1928). Kathmandu: Ratna Pustak Bhandar, 1976 (Reprint).
- Picat, Bossu. *Nepal, Moments of Life*. New Delhi: Rupa, 1977.
- Rieffel, Robert. *Nepal-Namaste*. Kathmandu: Sahayogi Prakasan, 1978.
- Rose, Leo. *Nepal: Strategy for Survival*. Berkeley: University of California Press, 1971.
- Ullman, James Ramsey. *Americans on Everest*. New York: Lippincott, 1964.

and substantial amounts of external assistance, principally from India, the People's Republic of China (P.R.C.), and the United States, a start has been made toward laying the foundations

for economic growth. Nepal has completed four economic development plans in which emphasis has been placed on the development of transportation and communications facilities, agriculture, and industry; improvement in government organization and management; and inauguration of a land reform program. In the fifth plan (1975-80) there has been a shift to put greater focus on development efforts which will respond more directly to the needs of the people in rural areas. However, Nepal remains one of the least developed countries in Asia. Its gross domestic product (GDP) in 1977 was estimated at just under \$1.5 billion (an income of about \$108 per capita).

Some noteworthy progress was made during these economic development periods, especially in the fields of social services and infrastructure. Several programs are continuing. A new countrywide education plan is underway, and a university has been established. Malaria was brought under control in a large and previously uninhabitable area, although its resurgence is requiring additional control efforts. Kathmandu is now linked to India, Tibet, and nearby hill regions by road and to other towns in Nepal by radio. Also, a start was made toward exploitation of Nepal's three major economic resources—forests, hydroelectric potential, and tourism.

Several hydroelectric projects have been completed. A system of internal finance and public administration has been established. Industry, concentrated in the Kathmandu Valley and the southeastern part of the country, is small and consists of food processing and the manufacture of items for local consumption. Plans are underway for paper, cement, and textile mills.

Agriculture remains Nepal's principal economic activity providing more than two-thirds of the country's income. About 90 percent of the people are engaged in agrarian pursuits. Only about 30 percent of the total area is cultivable, and another 33 percent is forested. Rice, wheat, and jute are the main crops. The southern region (Terai) produces an agricultural surplus, part of which supplies the food-deficient hill areas; part is exported to India.

TRAVEL NOTES

US tourists are welcome in Nepal. Visas may be obtained at Tribhuvan Airport on arrival, but unnecessary arrival delays can be avoided by obtaining visas before entering Nepal. Visas are usually valid for Kathmandu Valley, Pokhara, and Chitwan; permits for travel to or trekking in other parts of the country must be obtained from immigration authorities after arrival in Kathmandu. Individuals wishing to climb the higher mountains should write for permission to the Ministry of Foreign Affairs well in advance of planned expeditions.

Transportation—Five airlines now serve Kathmandu. Royal Nepal Airlines Corporation provides domestic service to some areas, and small plane charters are available. Traditional transportation in Nepal is by foot, and the use of porters to transport goods is likely to remain an important means of transportation. Nepal still has the lowest road mileage in relation to area or population of any country in the world. Nepal is about 10 standard time zones ahead of the Eastern US.

Communications—International telephone service is available but is slow and undependable. A 3-minute call to the US is about \$12, but reception is poor.

Telegrams are sometimes garbled. The charge for a telegram to the US is about 25 cents a word.

Mineral surveys have not yet been completed, but some small deposits, including coal (some now being mined), copper, iron, mica, zinc, and cobalt have been found.

The swift rivers flowing south from the Himalayas to the plains afford a considerable potential for developing hydroelectric power and are important to India's flood control projects. Two irrigation/hydroelectric projects have been undertaken jointly with India on the Sunkosi and Gandaki Rivers. Discussions are now underway to develop the enormous potential of the Karnali River in western Nepal. India has agreed to undertake another 14-megawatt hydroelectric project at Devighat in central Nepal, and discussions on two irrigation/hydroelectric projects in western Nepal are also underway. China has built a power plant on the Sunkosi River. Finally, a 60,000-kilowatt hydroelectric project

Health—The required immunizations are cholera and smallpox; malaria, polio, typhus, and gamma globulin are recommended.

Clothing—Summer clothing may be worn from March through October. During winter, woolen clothing is needed, especially at night. Weather is pleasant about 6 months of the year—in the winter season. Climate is subtropical with chilly or cold nights during the coldest part of the winter but with warm days. During summer, the weather is hot, and during the monsoon it is warm and humid.

Touring—Trekking is the best way to see Nepal as most parts are inaccessible except for foot trails that crisscross the country. Porters will carry your equipment for about \$1.75 a day. For about \$2.50 a day a Sherpa guide will lead your way and do all the cooking.

Numerous trekking agencies in Kathmandu provide all arrangements for treks ranging from spartan to luxurious. Equipment such as tents, sleeping bags, etc., is readily available in Kathmandu for rent or purchase at reasonable rates.

Hunting for such game as boar, leopard, and deer in the Terai region of Nepal is strictly controlled and quite expensive.

Weights—The Nepalese have their own system of weights and measures. The metric system is gradually being introduced.

is now under construction near the Rapti River at Kulekhani (IBRD, Kuwait, and Japan fund) and is expected to be completed by 1982.

Nepal's foreign trade, of which about 67 percent is with India, has grown in recent years as the development pace has accelerated, although its exports, primarily agricultural products and timber, slipped somewhat during the last 2 years because of production declines resulting from bad weather. Exports in fiscal year 1976-77 were estimated at \$98 million, and imports during that same year were estimated at \$169 million, including both consumer and development goods. Its exports to the United States totaled \$5.3 million (FY 1976-77), and it imported about \$4.5 million worth of goods from the United States.

The road system is being expanded, but many areas of the country are still accessible only by foot.

Population pressure on resources is bound to increase further in Nepal. Even with an effective family-planning program, Nepal's population will probably reach 20-22 million by the turn of the century. Overpopulation is already doing serious damage to the delicate ecology of the middle hills areas, where deforestation is increasing erosion and monsoon flooding.

To better tackle the problems of development, King Birendra has established a National Development Council composed of representatives from all segments of the country to advise the National Planning Commission on development needs and priorities. The country has also been divided into four development regions in an effort to insure that various sections receive their fair share of attention and available resources.

Nepal is seeking to lay the basis for a modern economy—a task made difficult by the country's rugged terrain and its recent emergence from the traditional feudal society. Maintaining a sufficient rate of economic progress to keep pace with the rising aspirations of the population is now, and is likely to continue to be, a primary task for Nepal.

FOREIGN RELATIONS

As a small landlocked country wedged between two larger and far stronger powers, Nepal's primary foreign policy problems concern the People's Republic of China and India. It has sought to develop and maintain a policy of close and officially friendly relations with both.

Nepal formally established relations with the P.R.C. in 1956 when the two countries signed a treaty of friendship. At that time, Nepal relinquished certain extraterritorial rights it had gained in Tibet as a result of mid-19th century wars. The status of the Sino-Nepalese border was settled by a 1960

treaty. The Chinese have contributed large amounts of economic aid to Nepal.

Because of strong cultural, linguistic, religious, and economic ties, Nepal's associations with India are closer than those with China. India has recognized Nepal's strategic importance and has made clear that it will not countenance any encroachments on Nepalese territorial integrity.

Nepal's dependence on the Indian market for the vast majority of its imports and exports and on the port at Calcutta for its access to the sea have periodically been the source of friction between the two countries. However, these issues are regulated by trade and transit treaties.

India has provided Nepal with substantial economic assistance, which currently totals more than \$14 million annually. Indian projects cover a wide spectrum of activities.

Nepal and the United Kingdom have maintained various forms of representation for more than 150 years, and their relations today are friendly.

The Soviet Union opened an Embassy in Nepal in 1959 and during the 1960's provided Nepal with economic assistance, largely in industry and transportation. In recent years, Soviet aid has been limited mainly to training and technical assistance.

On international issues, Nepal has followed a nonaligned and neutralist policy and often votes with the Afro-Asian group at the United Nations. Nepal participates in a number of UN specialized agencies.

U.S.-NEPAL RELATIONS

Since their formal establishment in 1947, U.S.-Nepal relations have been friendly. A U.S. Embassy was opened in 1959.

The United States has provided approximately \$225 million worth of

economic assistance to Nepal since the aid program began in 1951.

The U.S. Agency for International Development (AID) contributes \$15 million annually, which helps to provide for basic economic and social needs through programs in agriculture, education, health (family planning and malaria eradication), transportation, rural development, and resource conservation. AID grants are expected to increase over the next several years, reflecting Nepal's status as one of the world's poorest countries.

In addition, the Peace Corps has a number of programs in Nepal which assist development in agriculture, education, health, and rural programs generally. The first Peace Corps volunteers came to Nepal in 1962, and in recent years an average of about 120 volunteers have been in the country.

U.S. policy toward Nepal has these objectives:

- Support for peace and stability in South Asia.
- Support for the maintenance of Nepalese independence and territorial integrity.
- Support for one of the world's least developed countries in meeting its development efforts through selected programs of economic aid and technical assistance.

Principal U.S. Officials

- Ambassador—L. Douglas Heck
- Deputy Chief of Mission—Richard W. Boehm
- Political and Economic Officer—Samuel R. Peale
- Administrative Officer—Rose P. Wong
- Consular Officer—Franklin P. Huddle
- AID Director—Samuel H. Butterfield
- Public Affairs Officer—Diane K. Stanley
- Peace Corps Director—Lynn Knauff

The U.S. Embassy in Nepal is located at Panipokhari, Kathmandu (tel. 11199).

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D

HEAD OF STATE

His Majesty King Birendra Bir Bikram Shah Dev

HEAD OF THE GOVERNMENT

Rt. Honorable Mr. Surya Bahadur Thapa, Prime Minister

COUNCIL OF MINISTERS

1. Mr. Surya Bahadur Thapa
2. Mr. Jog Meher Shrestha
3. Mr. Netra Bikram Thapa
4. Mr. Balaram Dhartimagar
5. Mr. Marichman Singh
6. Mr. K. B. Shahi

PORTFOLIO

- Prime Minister, Minister for Royal Palace Affairs & Finance.
- Minister for Home Panchayat
- Minister for Forest and General Administration
- Minister for Defense
- Minister for Water Power & Irrigation
- Minister of Foreign Affairs

MINISTER OF STATE

1. Mr. Damber Bahadur Basnet
2. Mr. Damber Bahadur Singh
3. Mr. Hem Bahadur Melia
4. Mr. Bijaya Prakash Thebe
5. Mr. Damber Narayan Yadav

PORTFOLIO

- Tourism
- Public Works, Transportation, & Communication
- Land Reforms
- Food Agriculture, Commerce & Industry
- Education

ASSISTANT MINISTERS

1. Mr. Omkar Prasad Gauchan
2. Mr. Madan Bahadur Pradhan
3. Mr. Karna Bahadur Singh
4. Mr. Shri Prasad Budhathoki
5. Mr. Jit Bahadur Nepali
6. Mr. Nara Bahadur Gurung
7. Mr. Shambhulal Shrestha
8. Mr. Raj Bahadur Shah
9. Mr. Harihar Prasad Yadav
10. Mr. Sant Kumar Chaudhari
11. Mrs. Kalpana Bista

PORTFOLIO

- Health
- Food Agriculture
- Land Reforms
- Public Works & Transportation
- Home Panchayat
- Water Power & Irrigation
- Commerce & Industries
- Home Panchayat
- Finance
- Land Reforms
- Education

Embassy of Nepal
Washington, D.C.
March 25, 1980

Profile of His Majesty King Birendra Bir Bikram Shah Dev

Born: December 28, 1945 (34)

Married: February 1970

Ascended throne: January 31, 1972

Crowned: February 28, 1975

Wife: Her Majesty Queen Aishwarya Rajya Laxmi Devi Shah

Children: Crown Prince Deependra Bir Bikram Shah Dev (born - 1971)
Princess Shruti Rajya Laxmi Devi Shah (born - 1976)

Education: St. Joseph's College, Darjeeling, India
1959-64 Eton College, England
1967-68 Harvard University and University of Tokyo

Background: The king takes an active interest in Nepal's economic development and is chairman of the National Development Council.

The King has travelled extensively throughout Europe, North and South America, U.S.S.R., Iran, Japan, China and several African countries. He also travels widely within Nepal. In 1965-1966, he made several trekking trips to the Eastern and Western parts of Nepal during which he travelled incognito, sleeping in huts, college and school buildings and sometimes even in open fields. He has continued to visit many parts of Nepal since becoming King.

One of his leisure activities is flying, and he frequently pilots his own helicopter.

South Asia Programs
Division C
March 26, 1980

Profile of Prime Minister Mr. Surya Bahadur Thapa

(51)
Born in 1928.

Education: B.A. Allahabad University, India.

Background:

- 1954-56 - Member, Nepal congress Party.
- 1958 - Elected Member, Advisory Assembly, Chairman, Advisory Assembly.
- 1959 - Elected Member, Upper House.
- 1960 - Left the party politics; appointed Minister for Agriculture, Forest and Industry.
- 1962-66 - Minister for Finance and Economic Affairs.
- 1963 - Vice-Chairman, Council of Ministers, Minister of Finance, Economic Planning, Law and Justice.
- 1964-65 - Vice-Chairman, Council of Ministers, Minister of Finance, Law and General Administration.
- 1965 - Chairman, Council of Ministers.
- 1966 - Elected Member, National Panchayat.
- 1966-69 - Prime Minister with the portfolios of Royal Affairs and Finance.
- 1969-71 - Member, Royal Advisory Council.
- 1969-73 - Re-elected, Member, National Panchayat.
- 1972-73 - Arrested and imprisoned under Security Act.
- 1973-79 - Active in the District and National levels of the Panchayat, but he held no official positions during this period.

June '79
to date - Prime Minister with the portfolios of Royal Affairs and Finance.

Mr. Thapa also participated in the World Bank Annual Meeting in Washington in 1964.

South Asia Programs
Division C
March 26, 1980

Profile of Dr. Ratna Shumsher J.B. Rana
Vice-Chairman, National Planning Commission

(38)

Born in 1941

Education: M.A. (Geography), Patna University, India
M.A. (Geography), University of Hawaii.
Ph.D. (Geography), University of Pittsburg

Background: 1961-69 - Lecturer, Tribhuvan University
1969 - Senior Research Officer, Center for Economic
Development and Administration
1971 - Assistant Professor, Southern Illinois University.
1973-74 - Director, Center for Economic Development and
Administration
1974 - Member, National Planning Commission.
1979 - Vice-Chairman, National Planning Commission

South Asia Programs
Division C
March 26, 1980

Profile of Mr. Gorakshya Bahadur Nuchhe Pradhan
Secretary of Finance

Born in 1929

Education: M.A. (Political Science), Lucknow University (1954)
Diploma in Public Administration, Institute of Social Studies,
Hague (1963)
Management Analysis Course, USA (1966)

Background: 1955-58 - Lecturer, Patan College
1959-60 - Under Secretary, Parliament Secretariat
1960-61 - Under Secretary, Maha Sabha Secretariat
1961-62 - Under Secretary, Administrative Board, HMG.
1962-66 - Under Secretary, Administrative Management Dept. HMG.
1966-67 - Joint Secretary, Central Training Department.
1967-70 - Joint Secretary, National Panchayat Secretariat
1970-72 - Joint Secretary, Ministry of Education
1972-76 - Acting Secretary, National Planning Commission
Secretariat.
1976 - Member, National Development Council.
1976-79 - Secretary, Office of the Prime Minister.
1979-80 - Secretary, Ministry of Tourism
1980- - Secretary, Ministry of Finance.

Mr. Pradhan is considered to be an excellent civil service administrator, but he is inexperienced in the area of finance and economic policy.

South Asia Programs
Division C
March 26, 1980

Profile of Dr. Mohan Man Sainju

Member, National Planning Commission

Born in 1940

Education: M.A. (Economics), B.L. Tribhuvan University.
Ph.D. University of North Carolina, U.S.A.

Background:

- 1963-64 - Officer on Special Duty,
Minister of Economic Planning.
- 1964 - Director, Land Reform Department.
- 1966 - Chief Director, Land Reform Department.
- 1967-68 - Joint Secretary, Ministry of Land Reform,
Food and Agriculture.
- 1973 - Consultant, Research Triangle Institute,
North Carolina, U.S.A.
- 1973 - Chief Specialist and Head of Policy Studies,
CEDA.
- 1975 - Rector, Tribhuvan University.
- 1976 - Member, National Planning Commission.

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Profile of Dr. Bijaya Bahadur Pradhan

Member, National Planning Commission

Born in 1937

Education: Ph.D. (Economics), Indian School of International Studies, New Delhi, India (1965).

Background:

- 1962 - Research Department, Nepal Rastra Bank in 1962 as Research Officer.
- 1966 - Chief Research Officer.
- 1967-70 - Economic Advisor, Ministry of Finance, HMG.
- 1970-74 - Economist, International Bank for Reconstruction and Development (World Bank), Washington D.C.
- 1974-78 - Chief Economic Advisor, Research Department, Nepal Rastra Bank.
- 1979 - Member, National Planning Commission.

.....

Profile of Mr. Upendra Man Malla
Member, National Planning Commission

Born in 1932

Education: B.A. (Hons.), M.A. Patna University, India.
B.Litt., Oxford University.

Background:

1953	-	Officer on Special Duty, Ministry of Planning and Development.
1954	-	Deputy Secretary, Ministry of Commerce, Officiating Secretary, Ministry of Commerce.
1955	-	Lecturer, Tri-Chandra College, Kathmandu.
1956	-	Deputy Secretary, Ministry of Home Affairs.
1973-76	-	Dean, Institute of Humanities and Social Science, Tribhuvan University, Kathmandu.
1976	-	Reader, Tribhuvan University, Kathmandu.
1979	-	Member, National Planning Commission.

.....

Profile of Dr. Narsingh Narayan Singh

Member-Secretary, National Planning Commission

Born in 1934

Education: M.A. (English Literature) Bihar University, India.
Ph.D. (English Literature) Lucknow University, India.

Background:

- 1959 - Lecturer, Bhaktapur College, Nepal.
- 1962 - Lecturer, Tri-Chandra College, Kathmandu.
- 1969 - Lecturer, Tribhuvan University College.
- 1972 - Acting Regional Education Director,
Western Region.
- 1977 - Joint Secretary, Ministry of Education
- 1979 - Member-Secretary, National Planning
Commission.

.....

Profile of Mr. Marich Man Singh
Minister for Water, Power and Irrigation,
and Law and Justice

Born in 1940

Education: B.A. Lucknow University, India

Background:

- Headmaster, Salayan Secondary School, Rapti Zone
- Chairman, District Panchayat (Salayan District)
- Member, National Panchayat
- Chairman, Youth Organization, Rapti Zone.
- Member, National Panchayat.

1977 - Assistant Minister for Land Reform.

1979 (June) State Minister for Land Reform and General Administration.

1980 (Jan.) Minister for Water, Power and Irrigation and Law and Justice.

.....

Profile of Mr. Pasupati Pratap Shah

Acting Secretary of the Ministry of
Water, Power and Irrigation

Born in 1932

Education:

B.Sc. (Hons.), B.Sc. (Electrical Engineering)
Benares Hindu University, India.

Background:

- 1954 - Engineer, Department of Electricity.
Member, Joint Power and Irrigation
Committee, Nepal and India.
- 1958 - In-charge, Wireless Section
- 1968 - Deputy Chief Engineer, Department
of Electricity.
- 1970 - Chief Engineer, Department of Electricity.
- 1972 - Executive Chairman, Nepal Electricity
Corporation.
- 1979 - Acting Secretary, Ministry of Works
and Transport.

.....

Profile of Mr. Bijaya Prakash Thebe

State Minister for Food and Agriculture,
and Industry and Commerce

Born in 1944

Education: B.A. Darjeeling, India

Background:

- 1966 - Member, District Panchayat
(Taplegung District)
- 1967 - Member, National Panchayat
- 1974 - Member, National Panchayat
- 1979 (June) State Minister for Food and
Agriculture.
- 1980 (Jan.) State Minister for Food and
Agriculture and Industry and Commerce.

.....

Profile of Mr. Bed Bahadur Khadka
Acting Secretary of the Ministry of
Food and Agriculture

Born in 1933

Education: B.Sc. (Agriculture) Allahabad University, India.
M.Sc. (Plant Pathology), Agra University, India.
M.S. (Botany) Andre Meyer Research Fellow,
Louisiana State University, U.S.A.

Background:

1955	-	Assistant Plant Pathologist
1956	-	Rehabilitation Officer
1958	-	Ag. Extension Officer
1962	-	Plant Pathologist
1967	-	Chief Plant Pathologist
1973	-	Ag. Advisor to the Ministry of Food and Agriculture
1974	-	Project Manager, HADP
1975	-	Director General, Department of Agriculture
1978	-	Senior Ag. Advisor, Ministry of Food and Agriculture
1979	-	Secretary, Ministry of Food and Agriculture.

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APR 18 1980

LIST OF THE VISITORS FOR KULEKHANI SITE

1. Mr. Robert Mc-Namara - President, The World Bank
2. Mr. David Hopper - Vice President, The World Bank
3. Mr. John Melford - Resident Representative, UNDP
4. Mr. Richard Abbott - Resident Representative, The World Bank
5. Mr. Koch Weser - P.A. to Mr. R. Mc-Namara
6. Dr. R.S. Rana - Vice-Chairman, National Planning Commission
7. Mr. G.B. Nhuchhepradhan - Secretary, Ministry of Finance.
8. Mr. P.P. Shah - Secretary, Ministry of Water, Power & Irrigation.
9. Mr. H.S. Shrestha - Joint Secretary, Ministry of Finance
10. Mr. H.M. Shrestha - Chief Engineer, Electricity Department.
11. Mr. Mahesh Karḱi - Section Officer, Ministry of Finance.

NEPAL
General Brief

Political Situation

1. Following about a month of anti-government rioting claiming political freedoms and better economic conditions, the King announced on May 24, 1979, that a referendum would be held to decide whether to retain the present Panchayat (partyless) system, suitably reformed, or to set up a multi-party system. The referendum was originally scheduled for the fall of 1979, but the logistics of registering voters and establishing the referendum machinery have proved formidable, and it is now expected to be held in late May 1980.
2. The leaders of the existing Panchayat system^{1/} have since begun to devise a "Modified Panchayat System" to be their platform for the referendum. The Modified Panchayat System would be based on direct election to the central parliament and responsibility of the cabinet to the parliament. At the outset, many took it as a foregone conclusion that a multi-party system would be installed. More recently, it seems that the Modified Panchayat System has gained some ground.
3. The present Government, headed by Prime Minister S.B. Thapa, was originally assumed to be a caretaker administration to carry out the referendum. However, it has proved to be strongly sympathetic to the Panchayat system, "the establishment", from which it springs. There are some press accusations that the Government is diverting public funds to assist the Panchayat system's political campaign. At the same time, the Government appears to be developing an "election year" attitude toward hard economic policy decisions (e.g. relaxation of collection of income and land taxes), which Nepal can ill afford in the face of its serious economic problems.
4. Political meetings, particularly in the Terai, have not always been peaceful, and there have been reports of clashes between opposing groups, police shootings and terrorist activities. Leaders of some of the multi-party groups have declared that the Government cannot conduct the elections impartially and have warned that the country would be confronted with civil strife if the multi-party system does not win the referendum. However, if the multi-party system wins, the constitution would have to be amended, parties established and elections held. Thus, whatever the outcome of the referendum, there is likely to be a lengthy period during which the Government's attention will be focussed on issues other than economic development.

^{1/} Under the Panchayat system, villagers elect representatives to a Village Panchayat (council), which elects representatives to the District Panchayat from its members. This in turn elects representatives to the National Panchayat.

Economic Situation (For more detail see Economic Report)

5. When Nepal adopted economic and social development as major government objectives in the early 1950s, there was virtually no economic or administrative infrastructure. Initial development efforts were necessarily concentrated on establishing a foundation for future development. During these early stages, it was inevitable that growth would remain slow and that there would be little if any increase in per capita income. However, the Fifth Development Plan (1975/76 - 1979/80) was to be a turning point; it was believed that the country was poised for more rapid growth on the order of 4 - 5% annually. The level of investment was to increase substantially and its focus to shift towards the more directly productive sectors and the social services.

6. Public investment performance has been excellent during the Fifth Plan; development expenditures have grown at over 15% annually in real terms and the Government has been relatively successful in reorienting investment away from the transport sector towards agriculture and the social services. However, few of the other Fifth Plan objectives have been achieved, economic performance has been disappointing and the GDP growth rate is likely to have averaged only 2.0 - 2.5% per year. The inability of agricultural production to keep pace with population growth is at the heart of these difficulties. Although bad weather is partly to blame, the fundamental reason has been the failure to exploit the Terai irrigation potential. In many of the older irrigation schemes, water is not adequately distributed to the farmer's fields and this has been compounded by inadequate support services. Growth in other sectors of the economy has been limited and although tourism has been dynamic, it contributes only 1% of GDP. Nepal's fragile environment also continues to deteriorate steadily - the steep hillsides are being stripped to meet the requirements for crop land, fuelwood and livestock fodder and thus erosion is accelerating.

7. The Government has responded to these problems with the development strategy outlined in the revised Fundamental Principles of the Sixth Plan (1980/81 - 1984/85), which was endorsed by the Nepal Aid Group at its January 31, 1980 meeting. The highest priority is placed on developing agriculture, including revitalization of Hill food production to meet local requirements since significant agroclimatic specialization between the Hills and Terai is feasible only in the longer run. At the same time, since land holdings in the Hills are too small to generate much more than subsistence needs, programs will be started to encourage diversification into other activities such as small-scale and cottage industries to supplement Hill incomes. For the Terai, the strategy is to continue efforts to realize the Terai's considerable potential for increasing production of foodgrains and cash crops. The irrigation infrastructure is to be more fully utilized and improvements to extension services and associated inputs concentrated on those areas with irrigation facilities. Rural electrification through micro-hydro is seen as an important element in providing for increased production in rural areas. Reafforestation programs are given priority in order to provide fuelwood and fodder as well as to reduce soil erosion.

8. Although Nepal faces similar challenges in developing its human resources, the Government's strategy recognizes that its approach must be selective, since programs for meeting basic needs generally have only a long-term impact on manpower development but could divert resources away from activities more directly and immediately related to production. Increasing foodgrains production will meet the major need of improved nutrition. Better and more readily available supplies of drinking water and fuelwood will meet other needs, while also freeing labor currently wasted in their collection. Basic health facilities are to be expanded through integrated community health posts, while in education, stress is placed on improving the quality of primary and adult vocational education. Family planning programs are to be stepped up.

9. However, the Government's efforts to establish a solid basis for the Sixth Plan programs are being hampered by the effects of the poor monsoon in South Asia in 1979 which had a severe impact on Nepal's foodgrain production (paras. 12 - 14). The economic situation is now worse than for many years and real GDP is expected to decline by about 1% in 1979/80. Inflation, after remaining at a relatively low rate of 6 - 7% during the first few months of 1979/80, is likely to accelerate, since oil and some other controlled prices are being adjusted and inventories of imported consumer goods will have to be replenished. Inflation is anticipated to reach 18% at the end of the fiscal year, close to the rate of increase in India's wholesale prices in the final months of 1979. The overall balance of payments in 1979/80 is expected to deteriorate due to the decline in exports, particularly of rice, and to a larger import bill, due in part to higher oil prices.

10. On March 31, 1978, the authorities replaced a complex system of multiple exchange rates and exchange and trade restrictions with a dual exchange system. Transactions with India, which were virtually free from restrictions, were unaffected by these changes. Under the dual exchange rate system, Nepal maintains a basic rate of Rs 12.00 per dollar, with a second, premium rate applying for all merchandise trade with third countries except for imports of certain development goods. On February 21, 1980, the premium rate was changed from Rs 16.00 per dollar to Rs 14.00 per dollar, but the exemption from the premium rate was restricted to imports of petroleum products, cement and chemical fertilizers. These exchange rate adjustments involved an appreciation of about 14% for exports to third countries and an overall appreciation of about 2% for imports from third countries. But this was partly offset by (i) withdrawing the 12% duty on exports of raw jute; and (ii) raising import duties on a wide range of imports from third countries. Nevertheless, the overall trade balance is likely to be adversely affected by the recent measures.

11. Another development which will adversely affect the implementation of the development program, is the weakening in the Government's efforts to mobilize domestic resources. Nepal has a successful past record in this respect; revenues grew at 16% a year in current terms between 1969/70 to about 9% in 1978/79. However, this excellent record is now in jeopardy. Revenues from income and land taxes declined in 1978/79 and although total revenues grew by 14% the bulk of the increase came from taxes on international

trade as a result of higher imports. No real growth in total revenues is expected during 1979/80, after allowing for inflation. This slowdown reflects not only the weak economy in 1979/80, but also the impact on the tax system of the political difficulties facing Nepal. While only limited scope exists for discretionary tax measures, there is a potential for increased tax revenues from agriculture, particularly in the Terai. Revenues could be increased through improving the tax machinery, and the Government has approved, in principle, various administrative reforms in this direction, including the formation of a Special Revenue Services.

Foodgrain Shortfall

12. The poor monsoon in South Asia in 1979 has had a severe impact on Nepal's foodgrain production. Overall agricultural output is projected to decline by 4% in 1979/80, but rice and maize output may decline by 10% and 25% respectively. The foodgrain shortfall is expected to be about 520,000 tons or 16% of the 1978/79 harvest. Allowing for seed, wastage and milling, this translates into a shortfall in excess of 200,000 tons of foodgrains, measured against consumption requirements. Nearly half of this is to be met through existing stocks as well as domestic procurement in excess of normal levels, while the difference, totalling about 110,000 tons, has been requested from donors. At the Aid Group Meeting, donors pledged 33,000 tons and agreed to consider additional assistance.

13. The logistical difficulties of moving large quantities of foodgrains are immense. The 11,000 tons of food aid being received from the World Food Program are being obtained from Indian stocks, which will then be replenished from abroad. Nevertheless, the problem of moving foodgrains from the entry points in the Terai to deficit areas, particularly in the Hills, remains and is placing a severe strain on the Government's distribution system. The Government has prepared a Special Action Plan outlining the steps that must be taken, including provision for transport involving trucks, light aircraft, and porters. Timing has also become critical, since the foodgrains need to arrive in Nepal during March and April if they are to be moved to Hill villages before the monsoon begins in June. *have they*

14. The distribution of foodgrains has created a serious financing problem. In fact, distribution costs to Hill areas could well exceed the value of the food itself. The existing food distribution program traditionally incurs large financial deficits, and the additional obligations created by the shortfall, coming at a time when the budgetary situation is strained, are jeopardizing development efforts. Preliminary estimates indicate that the Government must find about Rs 130 million to finance distribution costs under the Special Action Plan and another Rs 150 million to finance domestic procurement. Donors are making a limited amount of financial assistance available to help meet these costs.

Aid Group

15. The Nepal Aid Group 1/ was formed in 1976 to assist in the coordination of the growing volume of foreign aid. The Group held its first meeting in Tokyo on December 2, 1976. Since then, there has been a substantial growth in aid activity with commitments and disbursements growing over 25% annually. Disbursements now comprise over 5% of Nepal's GDP and in 1977/78, exceeded US\$100 million. Of this amount, the Aid Group accounted for about 60%, while India and China, which are not members, accounted for most of the remainder.

16. The Third Meeting of the Aid Group was held in Paris on January 31, 1980. The Group, in welcoming the Government's frank assessment of the economic situation, endorsed its Sixth Plan strategy. The participants concurred with the priority given to developing agriculture, in particular the renewed efforts in the Hills, the programs to meet basic needs, and the intention to address the serious ecological situation. Aid indications during the meeting were well in excess of \$200 million and commensurate with the Bank's assessment of Nepal's needs.

Karnali

17. See attached brief on Karnali Project and Mr. Hopper's memorandum to Mr. McNamara of February 22, 1980 (Attachment A).

Diesel Fuel Shortage

18. In the past few months, severe shortages of diesel fuel due to labor problems in India have adversely affected the Nepalese economy and construction of development projects. We are particularly concerned about the possible delay in completion of the IDA supported Kulekhani Hydroelectric Project. It is the largest single project in Nepal (\$116 million), and is in support of economic development in the central region. Major civil works are limited largely to the dry season so that slippage at this time could mean a year's delay in project completion. Although the situation has recently improved somewhat, supplies still amount to only about 50% of the requirements of about 20,000 liters a day. Responding to our suggestions, the Government is attempting to resolve the problem. Possible solutions are to obtain more oil from India since Nepalese needs are relatively small, and to explore alternative sources of supplies. A possible short-term solution may be air freighting refined diesel oil to Kathmandu on an emergency basis. For further details on the diesel situation, see the attached note from Mr. Abbott, Resident Representative (Attachment B).

*WRT
to the
author*

1/ The Aid Group comprises: Austria, Canada, France, Federal Republic of Germany, Japan, Switzerland, United Kingdom, United States, ADB, World Bank, IMF, and the UNDP.

KARNALI RIVER (CHISAPANI) HYDROELECTRIC PROJECT

World Bank Position on Karnali

1. From time to time the Nepalese Government has raised the possibility of Bank support for the Karnali project. The Bank's position has been that it is willing to examine Karnali in more detail, but since the project would be viable only if India participates in the financing and purchases most of the energy, no further technical studies would be useful until there is a bilateral agreement stipulating the terms at which HMG and GOI would go ahead with the project. Recent discussions with Nepal have stressed that a political commitment by India was necessary before the Bank could make available a phased TA credit to cover the design costs, tentatively estimated to be about US\$15-20 million. Such a commitment has yet to be secured.

Project Description

2. The Karnali hydroelectric project would be located in the Chisapani gorge of the Karnali River in the Far Western Region of Nepal, about 45 kilometers from the Indian border. The project would include a gravel-fill embankment dam and two power houses, each with six turbine generators at 300 megawatts (MW), giving a total installed capacity of 3600 MW compared with Nepal's current power capacity of 79 MW. It would rank in the top fifteen hydroelectric plants worldwide in terms of power capacity. The dam would require thirteen years to complete. A 1977 study by Norconsult and Electrowatt estimated construction costs at \$1,500 million (in 1976 US\$), an amount roughly comparable to Nepal's GDP.

3. Given the scale of the dam and its remoteness from any Nepalese industry, viability of the project would depend on the sale of 90-95% of the electricity generated to India. If built now, Karnali could supply the equivalent of about one-tenth of the energy requirements of India's industrialized Northern Region in 1995, at a cost competitive with India's coal-based thermal power plants.

Consultant Studies

4. The UNDP commissioned a study of a power project on the Karnali River by Nippon Koei during 1962-66. However, a 1968 review by Snowy Mountain of Australia questioned the validity of the proposed Nippon Koei design, and in 1976, UNDP commissioned Norconsult and Electrowatt to resolve the controversy over the design.

5. The Norconsult study estimated that the proposed project would have an internal rate of return (IRR) of 20.5%, based on comparing the "with project" and "without-project" cash flows for the "system", defined to include both Nepal and the Northern Region of India. It also concluded that an embankment, gravel-fill dam at Chisapani would be technically feasible, based on investigation of engineering, geological, seismic and hydrological considerations, but a full-fledged feasibility study remains to be done. Among the technical concerns identified but unresolved in the Norconsult report were:

- (a) The process of diverting the river during construction will be very complex.

- (b) Erosion, already a serious problem in Nepal, will have to be controlled carefully, as the catchment area includes almost one-third of the country.
- (c) Seismic conditions must be evaluated further in the light of a thrust fault 2-3 km south of the site, which could result in an earthquake up to 7 on the Richter scale.
- (d) Daily water fluctuations accentuated by the dam will inevitably damage current irrigation systems downstream.

Further Issues

6. Norconsult estimated that further study required to bring the project to the pre-design stage would cost \$10 million (in 1976 prices). This would cover aerial photography, topographical mapping, and hydrological, geological and seismological investigations, with 10% added for contingencies. More recent assessments estimate design costs to be about US\$15-20 million.

7. With the viability of the project depending on the sale of the bulk of the power to India, an agreement between the two countries is needed if the project is to proceed. In principle, Indian officials have confirmed on several occasions their country's interest in purchasing the surplus energy to be generated by the proposed project. However, the text of the joint March 1979 Nepal/Indian Committee discussions indicates that there were major outstanding points of disagreement between the two governments. Three general areas of disagreement were: (i) the extent of the benefits to India of the protection from floods offered by the dam; (ii) whether Nepal has the right to divert the Karnali's water for irrigation, or whether water rights should instead be recognized according to historic use or past practice; and (iii) whether a re-regulation reservoir to assure continuous flow to downstream irrigation systems should be financed as part of the project.

8. An examination of the realities of possible financing arrangements reveals several problems with the Karnali project. First, repayment of external debt would have to be in convertible currency, whereas project revenues would be Indian rupees. Second, Nepal could never bear the debt burden for Karnali alone. While India would, therefore, be required to bear a large portion of the debt burden, including diverting some of its IDA allocations to Karnali, to date, India has not indicated that it considers the project a high enough priority to make this sacrifice. Thus, although the Karnali project should pay for itself and would be clearly justified if entirely on Indian territory, the financing situation is actually much more complex.

South Asia Programs
Division C
March 26, 1980

OFFICE MEMORANDUM

Attachment A
Page 3

DATE: February 22, 1980

TO: Mr. Robert S. McNamara, President
FROM: W. David Hopper, RVP, South Asia *WDH*
SUBJECT: Nepal Hydroelectric Development and
India's Power Needs

Following Mr. Picciotto's note to you about diesel oil shortages in India you asked about possible India/Nepal cooperation for development of Nepal's hydroelectric potential.

There is no doubt that the harnessing of the considerable hydro-power resources of Nepal should figure in any long term plan to develop the heavily populated eastern regions of the Indian subcontinent. However, the obstacles to cooperation in this field remain formidable. At the political level, the Janata Government had taken positive steps towards improved economic relations with its eastern neighbors and initiated some technical discussion about the Karnali Project. It remains to be seen whether Mrs. Gandhi's Government will see fit to pursue the same policy.

At the technical level, much remains to be done to prepare projects up to the feasibility stage. Geological surveys, construction planning, resettlement issues are likely to involve long and complex investigations following which it will be necessary to hammer out financing plans, long-term power sales arrangements and perhaps a final and formal agreement on the sharing of Ganges/Brahmaputra waters involving the lower riparian - Bangladesh.

Against these difficulties, India has vast untapped hydel resources within its own borders and Nepal's immediate perceived priority lies with projects which are well within the capacity of Nepal's agencies to carry out, e.g., hydel projects, sized and designed to meet Nepal's own power needs. *don't we develop*

In sum, attention will continue to be given to develop Nepal's hydel resources for the overall benefit of the Region but this must be viewed as a long term venture for which all parties must see a possible Bank role before we are in a position to provide concrete assistance.

RPicciotto/mjt

cc: Messrs. Stern, Wiehen, Geli, Lamson-Scribner, Dunn, Tibor, Pranich
Mrs. Hamilton

NEPAL

NOTE ON DIESEL SITUATION^{1/}

Nepal receives its petroleum products on a product exchange agreement with India - Russian crude fed into the Indian system and equivalent outputs exported to Nepal from India's refinery systems.

Nepal is supplied by the nearest four refineries in India - three in Assam and one in Bihar (Baroni refinery). Starting in September 1979 the flow of petroleum products from Assam decreased, by December three refineries were closed and by early January all four major supplying refineries were closed due to labour difficulties. In November and December, Nepal was receiving only about 20 percent of its requirements and from October onward started drawing on its reserves, which are normally three months supply. By February the reserves were essentially exhausted. Three of the four major supplying refineries are still closed, while one in Assam is operating but only supplying local needs in Assam. There is no solution to the labour difficulties in sight so that these refineries are not likely to be back to full production in the foreseeable future.

The Nepal Oil Corporation (NOC), with evidently the close cooperation of the Indian Oil Corporation, is attempting to supply its needs from other refineries within India. This is, however, difficult as India's full refining capability is limited and without the four inoperative (basically) refineries mentioned above it is even further constrained. India has now evidently begun importing finished petroleum products. In addition, finding adequate transportation within India, when petroleum products are obtained, is presenting a formidable problem which NOC is having great difficulty in solving.

At present Nepal is evidently receiving only about 50 percent of its petroleum (mainly diesel) needs. The Eastern Region is being largely supplied by the Haldia refinery near Calcutta and the Western Regions from the Bombay area, and the situation in these Regions is said to have eased somewhat. The Central Region, however, remains a major problem. NOC has responsibility for allocating priorities while local authorities within certain areas reallocate what is made available (in Kathmandu the Zonal Commissioner must be approached to obtain diesel for the Bank's vehicles). First priority is being given to public transport and movement of basic commodities. Next priority is given to the Kulekhani Power Project and after that mainly to those projects which, if not completed, will suffer major damage in the monsoon. None of these projects, however, is getting their full requirement. A quick survey of those Nepali Officers in charge of our major projects revealed the following:

- (i) Irrigation Projects - work is proceeding on Sunsari-Morang and the Narayani Projects, but at a slower pace. However, Bhairawa Lumbini has evidently come to a stop.
- (ii) Highways II - some diesel has been made available and the Department has shifted some around from project to project so that work is continuing on Thankot-Naubise and Tulsipur, but at evidently a much reduced pace.

^{1/} Based mainly on discussions held on Friday, March 14, with Mr. S.B. Thapa, General Manager, Nepal Oil Corporation.

- (iii) Kulekhani - the project has been promised about half (10 k litres/day) that is needed to run two shifts. Deliveries were to start from March 14, but the Chief Engineer of the Electricity Department was skeptical that this promise in fact could be met. Tunneling is continuing, but work on the dam itself has been stopped.
- (iv) Project vehicles - in order to attempt to reduce future demand, HMG has ordered a review, to be conducted by Ministry of Finance, of import of all petrol and diesel powered vehicles under development projects. Mr. H.S. Shrestha has promised to keep us advised of details on this matter. This, however, seems an isolated and disjointed effort.

The resulting impact of this situation has not only been a severe scarcity of cooking gas and kerosene as well as diesel oil and petrol, but due to transport constraints, sugar and other commodities as well as firewood have become scarce and more expensive. In the midst of an unsettled political situation these shortages are the cause of increased tensions in the society.

R. Abbott
Nepal Resident Mission
March 19, 1980.

TABLE 3A
NEPAL - SOCIAL INDICATORS DATA SHEET

532/5/25

LAND AREA (THOUSAND SQ. KM.)	NEPAL			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{1/a}			
	TOTAL	/b	1970 /b	MOST RECENT ESTIMATE /b	SAME	SAME	NEXT HIGHER
					GEOGRAPHIC REGION /c	INCOME GROUP /d	INCOME GROUP /e
TOTAL	140.8						
AGRICULTURAL	40.2						
GNP PER CAPITA (US\$)	40.0		60.0	120.0	191.1	209.6	467.5
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	5.0		15.0	11.0	69.1	83.9	262.1
POPULATION AND VITAL STATISTICS							
POPULATION, MID-YEAR (MILLIONS)	9.3		11.4	13.3	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	3.1		3.9	4.3	13.2	16.2	24.6
POPULATION PROJECTIONS							
POPULATION IN YEAR 2000 (MILLIONS)				23.0	.	.	.
STATIONARY POPULATION (MILLIONS)				51.0	.	.	.
YEAR STATIONARY POPULATION IS REACHED				2160	.	.	.
POPULATION DENSITY							
PER SQ. KM.	66.0		81.0	94.0	86.6	49.4	45.3
PER SQ. KM. AGRICULTURAL LAND	243.0		286.0	331.0	330.2	252.0	149.0
POPULATION AGE STRUCTURE (PERCENT)							
0-14 YRS.	41.3		42.0	42.0	44.3	43.1	45.2
15-64 YRS.	56.0		55.0	55.0	52.4	53.2	51.9
65 YRS. AND ABOVE	2.7		3.0	3.0	3.1	3.0	2.8
POPULATION GROWTH RATE (PERCENT)							
TOTAL	1.1		2.0	2.2	2.4	2.4	2.7
URBAN	6.5		4.3	4.4	4.1	4.6	4.3
CRUDE BIRTH RATE (PER THOUSAND)	46.0		45.0	45.0	44.4	42.4	39.4
CRUDE DEATH RATE (PER THOUSAND)	29.0		23.0	19.0	16.4	15.9	11.7
GROSS REPRODUCTION RATE	3.0		3.0	3.2	3.2	2.9	2.7
FAMILY PLANNING							
ACCEPTORS, ANNUAL (THOUSANDS)	..		37.4	138.8	.	.	.
USERS (PERCENT OF MARRIED WOMEN)	..		0.7	17.0	7.9	12.2	13.2
FOOD AND NUTRITION							
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	110.7		102.0	90.0	99.4	98.2	99.6
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)							
TOTAL	92.0		94.0	95.0	93.0	93.3	94.7
PROTEINS (GRAMS PER DAY)	51.0		52.0	50.0	56.1	52.1	54.3
OF WHICH ANIMAL AND PULSE	9.0		11.0	9.2	10.4	13.6	17.4
CHILD (AGES 1-4) MORTALITY RATE	35.0		27.0	23.0	19.2	18.5	11.4
HEALTH							
LIFE EXPECTANCY AT BIRTH (YEARS)	37.0		42.0	45.0	49.1	49.3	54.7
INFANT MORTALITY RATE (PER THOUSAND)	..		152.0/h	..	..	105.4	68.1
ACCESS TO SAFE WATER (PERCENT OF POPULATION)							
TOTAL	..		2.0	9.0	31.5	26.3	34.4
URBAN	..		53.0	81.0	63.9	58.5	57.9
RURAL	..		..	5.0	20.1	15.8	21.2
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)							
TOTAL	..		1.0	1.0	15.7	16.0	40.8
URBAN	..		14.0	14.0	66.8	65.1	71.3
RURAL	..		..	..	2.5	3.5	27.7
POPULATION PER PHYSICIAN	72000.0		49770.0/E	38650.0/E	7107.9	11396.4	6799.4
POPULATION PER NURSING PERSON	..		68320.0/E	52770.0/R	12064.0	5552.4	1522.1
POPULATION PER HOSPITAL BED							
TOTAL	8130.0		6750.0	6630.0	2738.4	1417.1	726.5
URBAN	..		..	..	..	197.3	272.7
RURAL	..		..	..	..	2445.9	1404.4
ADMISSIONS PER HOSPITAL BED	..		..	..	..	24.8	27.5
HOUSING							
AVERAGE SIZE OF HOUSEHOLD							
TOTAL	..		5.5	..	..	5.3	5.4
URBAN	5.4		..	..	..	4.9	5.1
RURAL	..		..	..	..	5.4	5.5
AVERAGE NUMBER OF PERSONS PER ROOM							
TOTAL	..		..	..	..	..	..
URBAN	2.0		..	..	..	..	..
RURAL	..		..	..	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)							
TOTAL	..		..	..	..	22.5	28.1
URBAN	30.2		..	..	..	17.8	45.1
RURAL	..		..	..	..	..	9.9

TABLE 3A
NEPAL - SOCIAL INDICATORS DATA SHEET

	NEPAL			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) /a		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	SAME	SAME	NEXT HIGHER
				GEOGRAPHIC REGION /c	INCOME GROUP /d	INCOME GROUP /e
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	9.0	26.0	60.0	59.5	63.3	82.7
MALE	16.0	44.0	95.0	74.9	79.1	87.3
FEMALE	1.0	8.0	25.0	43.7	48.4	75.8
SECONDARY: TOTAL	6.0	9.0	12.0	19.5	16.7	21.4
MALE	11.0	15.0	20.0	27.8	22.1	33.0
FEMALE	2.0	3.0	4.0	10.0	10.2	15.5
VOCATIONAL ENROL. (% OF SECONDARY)	0.2	6.0	22.0/1	1.3	5.6	9.8
PUPIL-TEACHER RATIO						
PRIMARY	33.0	22.0	31.0	42.2	41.0	34.1
SECONDARY	32.0	21.0	28.0	..	21.7	23.4
ADULT LITERACY RATE (PERCENT)	9.0/1	14.0	19.2	25.5	31.2	54.0
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION						
	0.2	0.4	..	2.3	2.8	9.3
RADIO RECEIVERS PER THOUSAND POPULATION						
	1.0	5.0	6.0	15.5	27.2	76.9
TV RECEIVERS PER THOUSAND POPULATION						
	..	..	..	..	2.4	13.5
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION						
	0.8	2.0	8.0	6.2	5.3	18.3
CINEMA ANNUAL ATTENDANCE PER CAPITA						
	..	..	..	..	1.1	2.5
LABOR FORCE						
TOTAL LABOR FORCE (THOUSANDS)	4300.0	4853.0	6336.0	..	..	..
FEMALE (PERCENT)	40.3	40.3	40.0	21.4	24.8	29.2
AGRICULTURE (PERCENT)	94.6	93.9	93.0	66.3	69.4	62.7
INDUSTRY (PERCENT)	2.0	2.1	2.0	9.6	10.0	11.9
PARTICIPATION RATE (PERCENT)						
TOTAL	50.0	48.7	48.3	35.8	36.9	37.1
MALE	59.8	58.3	58.1	52.3	52.4	48.8
FEMALE	40.2	39.2	38.5	15.7	18.0	20.4
ECONOMIC DEPENDENCY RATIO	0.9	1.1	0.9	1.3	1.2	1.4
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS	..	..	..	..	..	15.2
HIGHEST 20 PERCENT OF HOUSEHOLDS	..	..	..	..	..	48.2
LOWEST 20 PERCENT OF HOUSEHOLDS	..	..	..	..	..	6.3
LOWEST 40 PERCENT OF HOUSEHOLDS	..	..	..	..	..	16.3
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	85.0	86.5	99.2	241.3
RURAL	..	..	40.0	74.2	78.9	136.6
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	..	..	91.9	179.7
RURAL	..	..	37.0	50.4	54.8	103.7
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)						
URBAN	..	..	55.0	44.3	44.1	24.8
RURAL	..	..	61.0	52.4	53.9	37.5

.. Not available
 . Not applicable.

NOTES

/a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1977.

/c South Asia; /d Low Income (\$280 or less per capita 1976); /e Lower Middle Income (\$281-350 per capita, 1976); /f Personnel in government services; /g Including midwives and assistant nurses; /h 1971-73; /i Upper secondary (grades 8-10) only; /1 1962.

Most Recent Estimate of GNP per capita is for 1978.

August, 1979

532/5/26

ECONOMIC FACTORS 1/

PRODUCTION:

For 1979/80 as a whole, agricultural output is now expected to decline by about 5 percent and real GDP by at least 1.5.

PRICES:

PRICE INCREASES (%)
For 12 Month Period Ending

<u>Consumer Price Index</u>	<u>Nov.1979</u>	<u>Dec.1979</u>	<u>Jan.1980</u>	<u>Feb.1980</u>
Kathmandu	5.7	10.1	15.2	15.5
National	3.4	8.0	11.5	11.9

BUDGET:

Percentage Change 1979/80
Over Same Period Previous Year

First 6 Months First 7 Months

Revenue	8.0	8.4
of which tax rev.	(8.4)	(6.4)
Expenditure	8.5	.4
regular	13.8	14.4
development	4.1	-10.3

MONEY SUPPLY:

First 7 Months
Rate of Change

	<u>1978/79</u>	<u>1979/80</u>
Broad Money	11.9	9.3
Domestic Credit	21.0	15.5

FOREIGN TRADE:

First 6 Months
Rate of Change

	<u>1978/79</u>	<u>1979/80</u>
Total Exports	31.0	-12.2
(of which India)	(15.6)	(-20.3)
Total Imports	26.0	17.9
(of which India)	(7.3)	(18.2)

1/ Based on discussions with IMF Advisor.

BALANCE OF PAYMENTS:

COMPARISON FIRST SIX MONTHS (NRs. Millions)

	<u>Third Countries</u>		<u>India</u>	
	<u>1978/79</u>	<u>1979/80</u>	<u>1978/79</u>	<u>1979/80</u>
Trade balance	-430.9	-335.1	-496.6	-679.2
Services	228.0	270.3	122.9	124.9
Transfers	210.9	285.5	160.8	195.0
Current Account	8.0	220.7	-212.9	-359.3
Official Capital	192.5	261.3	-	-
Private Capital	183.1	96.7	-86.9	-252.3
Overall Balance	<u>412.8</u>	<u>608.9</u>	<u>-299.8</u>	<u>-611.6</u>

First 6 Months

	<u>1978/79</u>	<u>1979/80</u>
Total Overall Balance	113.0	-2.7
Total Trade Balance	-927.5	-1014.3
Total Current Account	-204.9	-138.6

.....

532/5/24

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Topics for Discussion with His Majesty the King

I. Political Developments (See General Brief, paras. 1-4)

You may wish to ask the King to comment on recent political developments, the forthcoming referendum, and their impact on the administration and Nepal's development prospects.

II. Absorptive Capacity

Nepal faces serious absorptive capacity constraints. In part, these problems are due to the shortages of technical manpower in certain areas, including project preparation and implementation. Although steps are being taken to increase the supply of critical manpower skills, tangible progress will materialize slowly. Nevertheless, the Government could improve its implementation ability by using existing manpower more effectively. Donor experiences suggest that streamlining the administrative structure and procedures and revising the regulations governing the duties and responsibilities of civil servants would speed up the decision making process and project implementation. You may wish to emphasize that in improving development administration, major areas that need to be addressed include: (i) frequent transfers of key personnel, that hamper efficient management at all levels of Government (Civil servants for example cannot serve more than five years at the Secretary level.); (ii) inadequate coordination among public agencies in implementing projects; (iii) excessive centralization and limited delegation of authority; and (iv) reluctance of civil servants to exercise authority in an environment where fear of being accused of impropriety predominates.

In raising these issues, you should be aware that the Palace Secretariat reportedly has a major role in appointing and transferring key personnel and in formulating economic policies.

III. Improved Development Administration

Development planning and implementation in Nepal is hampered by the dichotomy in responsibilities between the National Planning Commission (NPC) and the Ministry of Finance. The NPC functions relatively autonomously, reporting to the Prime Minister who is its Chairman but only in a nominal sense. Because the Vice-Chairman, who is the chief operating official, and the members of the NPC outrank their counterparts in the other ministries, problems in terms of protocol and inter-ministerial authority arise. Plan formulation is the main responsibility of the NPC, but the Ministry of Finance controls the allocation of budgetary resources and frequently ignores the NPC's views in programming development projects. Historically, depending upon the personalities involved, Finance and NPC have often been at odds and coordination of development activities has suffered. As a consequence, NPC essentially operates in a vacuum, and even the line ministries do not take its directives seriously. Many observers have stressed the need to integrate the planning and budgetary processes, and a decision to this effect can only be initiated by the King. You may wish to inquire about the relative roles of the NPC and Ministry of Finance in development planning, budgeting, and implementation. In addition, you may wish to inquire about alternative means of improving coordination including, for example, merger of the two organizations under one Minister.

IV. Diesel Fuel Shortage (See General Brief, para. 18 and attachment) ✓

You may wish to raise the issue of the adverse impact of the diesel shortage on the economy and on development projects, in particular, the serious delays caused to the Kulekhani Hydroelectric Project.

South Asia Programs
Division C
March 26, 1980

Topics for Discussion with the Prime Minister

I. Resource Mobilization (See General Brief, para.11)

Although in the past, the Government has been successful in raising additional revenues, the capacity of the Nepalese economy to generate sufficient domestic resources to meet the increased development program remains a major issue. Political developments have led to an increased reluctance by the Nepalese to pay income and land taxes, and the Budget for 1979/80 incorporated several tax reduction measures, including some reductions in indirect taxes and suspension of the Panchayat and Development Land Tax. Despite government forecasts of a large increase in revenues in 1979/80, it is unlikely that revenue growth will exceed the inflation rate, estimated to be about 12%. However, one encouraging development has been the approval in principle of a major effort at modernizing the tax administration, namely the introduction of a career structured Special Revenue Service, as recommended by an IMF advisor. You may wish to ask how the introduction of the service is progressing and stress the need for moving forward with this as expeditiously as possible, particularly in view of the weakness in the other aspects of revenue collections.

Perhaps the greatest possibility for improved domestic resource mobilization lies in improving the performance of public sector enterprises. In this connection, it may be useful to emphasize the need for adjusting retail prices for goods produced or traded by public enterprises in a timely fashion. The recent adjustment of the prices of oil products and electricity rates (both by about 30%), although long overdue, was a courageous act in view of the background of depressed economic conditions and political uncertainty.

II. Food Situation (See General Brief, paras. 12-14)

At the Aid Group meeting on January 31st 1980, donors had agreed to supply Nepal with 33,000 tons of foodgrains although 110,000 tons had been requested. You may wish to inquire what has happened since then concerning donor commitments, including any aid received from India or China. It may also be useful to ask about the Government's efforts in distributing the foodgrains assistance that is now arriving in Nepal.

III. Measures to Implement the Development Program

The revised "Fundamental Principles of the Sixth Plan" provides a well-focussed development strategy for Nepal. In following up the discussion, you may wish to inquire about the types of actions and programs needed to fulfill the objectives of the Sixth Plan, including proposals to (i) improve the performance of public enterprises by appointing better management and to give them more discretion in determining pricing policies; (ii) improve the land tenure system; and (iii) provide better incentives to the private sector.

IV. Supply of Development Materials

In addition to the topics raised with the King (Item II), a further aspect of the absorptive capacity problem could be raised with the Prime Minister namely that of bottlenecks in the supply of materials necessary for development projects. Irregular supply of construction materials, particularly cement, steel and more recently, diesel oil, often delays implementation of projects. This occurs sometimes for reasons outside government control, such as transit problems through India and labor problems at supply refineries in India in recent months. However, you could stress that steps such as more timely ordering of materials, maintaining minimum stocks, establishing links with alternative suppliers, delegating more authority to project managers in ordering materials and dealing with logistical problems of procurement and transport, could go a long way in resolving these problems.

It may be useful to inquire what steps the Government is taking to resolve the shortage of diesel fuel. Has the Government considered: (i) requesting India for a special allocation; or (ii) exploring alternative sources of supply from other markets? (See General Brief, para. 18 and attachment)

South Asia Programs
Division C
March 26, 1980

Topics for Discussion with the National Planning Commission

*Conflict with Govt
major 74?*

I. Sixth Plan Preparations

The National Planning Commission (NPC), under the new leadership of Dr. Ratna Shumsher Rana, has been very receptive to the Bank's views. An economic mission in June 1979 left an Aide Memoire on its findings, which criticized quite extensively the targets, objectives, and priorities as then proposed for the Sixth Plan (1980/81 - 1984/85). By October 1979, the NPC had extensively revised the basic strategy which is now almost entirely consistent with the recommendations of the Bank's December 1979 economic report. You may wish to ask the NPC for a briefing on the Sixth Plan strategy. In following up this discussion, you could inquire about how the NPC will ensure that the proposals are implemented, and what institutional reforms are needed to make the government administration more development oriented.

II. Bank Technical Assistance

The NPC, in the course of discussions, may refer to our recent assistance in formulating the Sixth Plan. This assistance is in response to a series of requests over the past few years. The most recent, in December 1979, was for three or four Bank sector specialists to stay in Kathmandu for three to six months to help finalize the project content of the Sixth Plan. However, fielding a group of specialists on such short notice was not feasible; instead staff on normal mission assignment, will discuss with the NPC selected issues: manpower development, Hill food development and industrial policy. In addition, regional economists will review the macro aspects of the Plan.

The NPC's immediate task is to come up with viable projects to fill out the Sixth Plan, but short-term assistance for a few months could do relatively little since identification of projects in major sectors is a long term endeavor. The need for long term assistance for institution building and training is undeniable, and the Bank proposed a concerted effort to strengthen project preparation in NPC in January 1978. Such assistance was to be financed under a technical assistance credit, but the Ministry of Finance did not support the proposal and the matter was dropped. We would not recommend initiating any long-term assistance at this time in view of the forthcoming referendum and political uncertainties, which might impact adversely on economic policies.

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South Asia Programs
Division C
March 26, 1980

Topics for Discussion with the Minister of

Water, Power, and Irrigation

The Minister is in charge of the most important portfolio in terms of Nepalese development projects and Bank lending programs, covering all aspects of water resources, including drinking water supply (and sewerage).

I. Cost Recovery and Rates of Return

Cost recovery and rate of return requirements in public utility projects in Nepal constitute a major issue. Because Nepal is landlocked and lacks material resources, construction costs are substantially higher than in many developing countries. These high costs together with the shortage of domestic investment funds make it important that utility tariffs are set at levels to ensure adequate cost recovery. On the other hand, the extreme poverty of large numbers of the population makes it difficult to fix tariffs to allow for a reasonable rate of return on investments. X

In the case of the Kulekhani Hydro Project, IDA required a tariff increase as a condition of effectiveness in order to ensure that the Nepal Electricity Corporation earns an adequate rate of return on its assets. It was, however, politically difficult for the Government to increase tariffs, causing several months delay before a supplemental credit could become effective. You may wish to emphasize the importance of cost recovery especially for hydro projects where industrial, commercial and urban domestic users of electricity have the ability to pay. In such cases, cost recovery enables the Government to direct resources to priority activities, replicate successful projects, avoid subsidizing certain segments of the population at the expense of others, and maintain sound pricing policies. ✓

II. Kulekhani (See Field Trip Material)

You may wish to mention that you will be visiting the US\$116 million Kulekhani Hydroelectric Project the following day, and to ask the Minister his views on the project. Construction was recently interrupted for more than a month due to unavailability of diesel fuel. This emphasizes the need for long-term planning for the supply of construction and other materials. (See item IV in topics for the Prime Minister and General Brief, para. 18). ✓

In view of the acute need for additional power in support of Nepal's development effort, the Bank is preparing a second hydro project, Marsyangdi (50-70 MW), which would be co-financed with Germany. Appointment of consultants, financed by Germany, is being actively pursued to enable early completion of detailed design.

III. Karnali (See General Brief, para. 17 and attachments)

We do not suggest raising this issue, but the Minister may wish to discuss assistance for the Karnali Hydro Project. The Bank's position remains that a political commitment by India is necessary before the Bank could make available a phased TA credit to cover the design costs estimated to be about US\$15-20 million.

IV. Irrigation (See General Brief, paras. 6 and 7)

In view of recurring food shortages and slow growth of agricultural production, irrigation is given one of the highest priorities in the Government's development program. The Bank has taken a comprehensive and integrated approach in its irrigation projects, and notwithstanding certain start-up delays, yields in projects where irrigation water has started to flow, have increased substantially. You may wish to ask the Minister for his views on future Bank assistance for irrigation, while also stressing that the Bank could substantially increase the scale of its irrigation projects in the Terai if the international water issue could be resolved. In this connection, you may wish to suggest that the Government take a greater initiative in this matter.

South Asia Programs
Division C
March 26, 1980

Topics for Discussion with the Minister of Food and Agriculture

I. Food Situation (See General Brief, paras. 12-14)

In addition to the points discussed with the Prime Minister (Item II), you may wish to ask how the Government is dealing with the logistical difficulties of moving foodgrains into the deficit areas in Nepal. Do they expect to have distributed all the supplies before the onset of the 1980 monsoon in June? ✓

II. Agriculture Manpower Development

A major constraint on agricultural development has been the shortage of trained manpower. All IDA assisted agricultural projects contain a technical assistance component for training. We have also undertaken an "Agricultural Manpower Survey" and are now in the process of identifying a project in this area which would increase supplies of trained manpower both through expanding domestic training programs and through foreign training. You may wish to ask the Minister to elaborate on their policies to increase supplies of trained agricultural manpower. ✓

← have to deal with

III. Hill Food Production (See General Brief, para. 7)

The development strategy for the Hills is to increase foodgrain production so that a much larger proportion of Hill food requirements can be met from their own production. IDA projects to develop Hill food production and to expand cottage industries are at an advanced stage of preparation. It may be useful to ask the Minister about the Government's plans to implement its strategy of resuscitating Hill agriculture. ✓

South Asia Programs
Division C
March 26, 1980

G

532/5/23

Kulekhani Hydroelectric Project

Credit Amount:	US\$40.8 million ^{1/}
Total Project Cost:	US\$116.0 million
Date of Signing:	January 9, 1976
Closing Date:	December 31, 1982
Undisbursed Balance:	US\$24.7 million
(February 29, 1980)	

The Project is designed to meet the growing demand for power in Central Nepal, which is the main center of economic activity. The Project would provide 60 MW of peaking capacity and generate 165 GWh of primary energy and 46 GWh of secondary energy annually. It comprises the construction of a 107 m high rock-fill dam, an intake structure, a headrace tunnel, a surge tank, a penstock, an underground power house containing 2 x 30 MW turbo-generating units and associated transmission and substation facilities. The Project also provides technical assistance and training. Another objective of the Project is the improvement of the financial performance of the Nepal Electricity Corporation (NEC), which will operate the plant upon its completion. The Project is scheduled to be completed by the end of 1981.

This is the largest single project being carried out in Nepal. It is also the first project where modern technology is being used in construction. Civil works construction is being carried out by Sambu (Korea), while engineering and supervision is provided by Nippon Koei (Japan). Cooperation among the two and the Government's Kulekhani Hydroelectric Development Board is good, and Nepalese engineers are being exposed and trained for the first time in this type of technology.

The total cost was originally estimated at US\$68 million with a foreign exchange component of \$56.5 million. Cost estimates have subsequently been revised to US\$116 million and the foreign exchange component to US\$95.3 million. Initial start up of the project was delayed due to Government's delay in carrying out preliminary works and in award of contract. The increase in costs is due, principally, to design changes resulting from additional geological surveys, the substantial allowances in the civil works contract (to cover uncertainties and difficulties associated with construction in Nepal and at the project site), and subsequent revaluation of the Japanese yen in which the cost of major part of equipment and consulting services is paid.

In view of the importance of the project to the Nepalese economy, a number of cofinanciers are cooperating in financing the project. For OECF, EEC, Kuwait Fund, and OPEC Fund, this is their first operation in Nepal. The present financing plan is as follows (at 1979 exchange rates):

1/ Includes supplemental credit of \$14.8 million approved on May 10, 1979.

	<u>US\$ Million</u>
IDA	40.8
EEC	3.0
OECF	20.0
Kuwait Fund	24.9
OPEC Fund	3.3
UNDP	6.1
Government	17.9
	<hr/>
	116.0

On May 10, 1979, the Board approved a supplemental IDA credit of \$14.8 million to finance the cost overrun on the component originally financed by IDA, and a \$3.0 million EEC Special Action Credit to finance part of the Government's share in project costs. These are included in the above financing plan.

The Supplemental Credit and the EEC Credit were signed on June 18, 1979. These became effective on January 21, 1980, after the Government had adjusted Nepal Electricity Corporation's tariffs to produce a rate of return of 4% in FY1979/80.

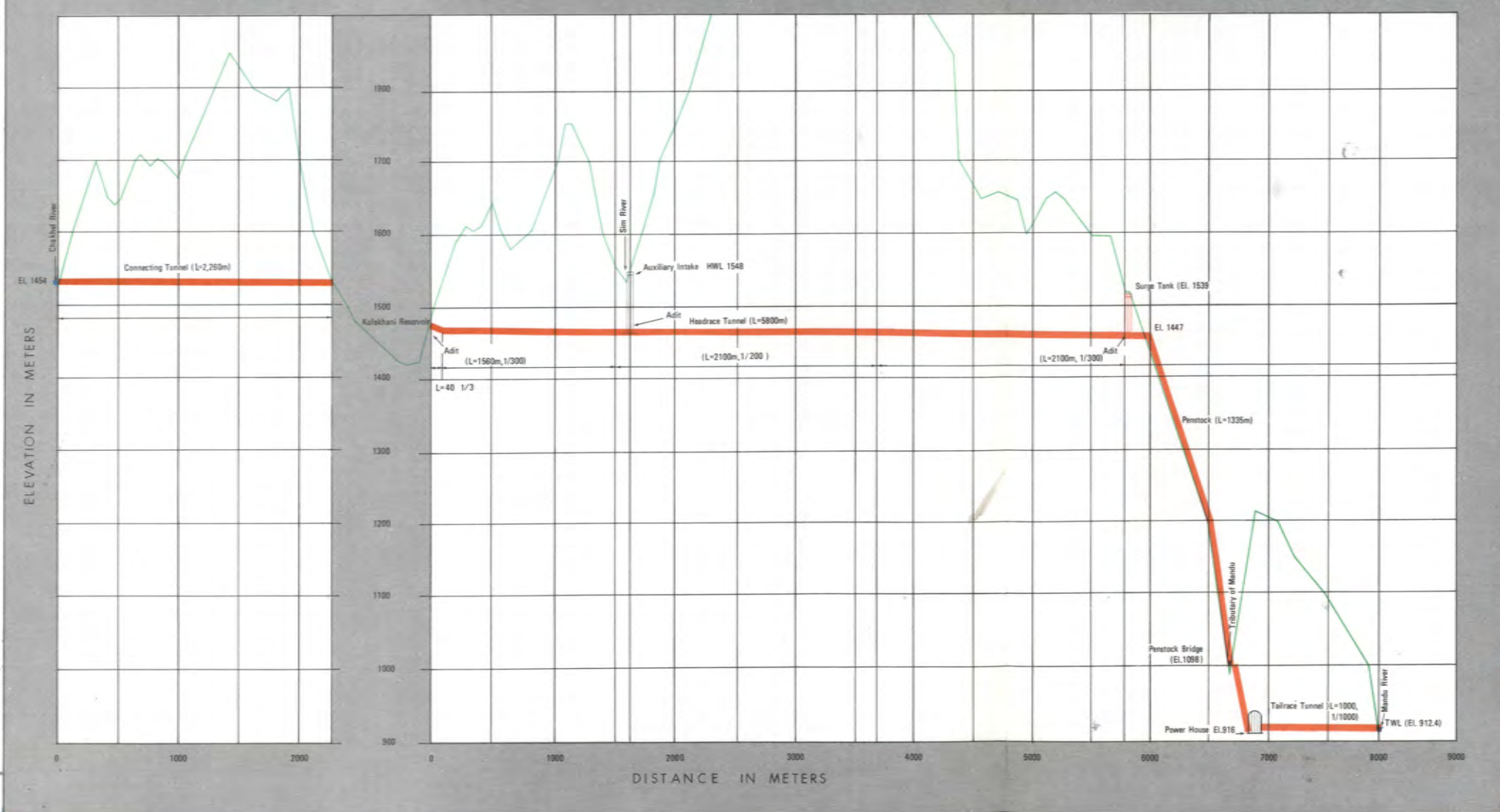
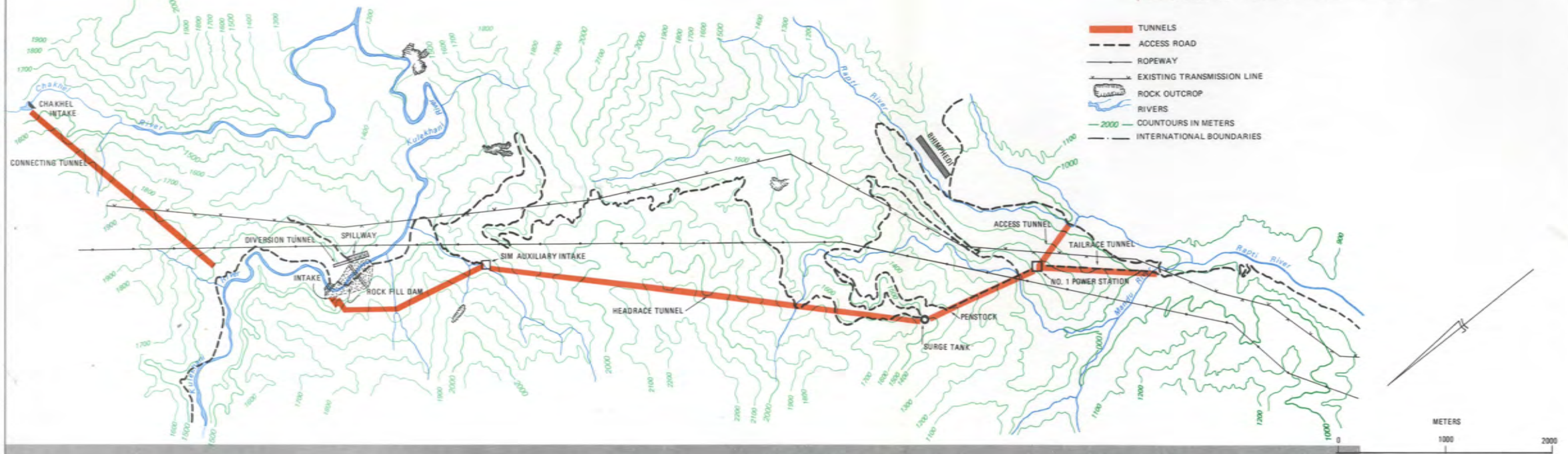
Earlier this year, construction work had slowed down considerably for about a month due to shortages of diesel oil resulting from labor troubles at refineries in India. Although the situation has improved, we are still concerned that the revised construction schedule will be delayed since adequate supplies are not yet available (further details see General Brief, para. 18).

As of end of February 1980, 23% of dam embankment works, 75% of excavation of the longest portion of the headrace tunnel, and 22% of excavation of the underground powerhouse, were completed.

You will overfly the project by helicopter and, if possible, land at both the dam site and the powerhouse site.

South Asia Programs
 Division C
 March 27, 1980

NEPAL KULEKHANI HYDROELECTRIC PROJECT GENERAL PLAN AND PROFILE



Centimetres 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

Inches 1 2 3 4 5 6 7 8

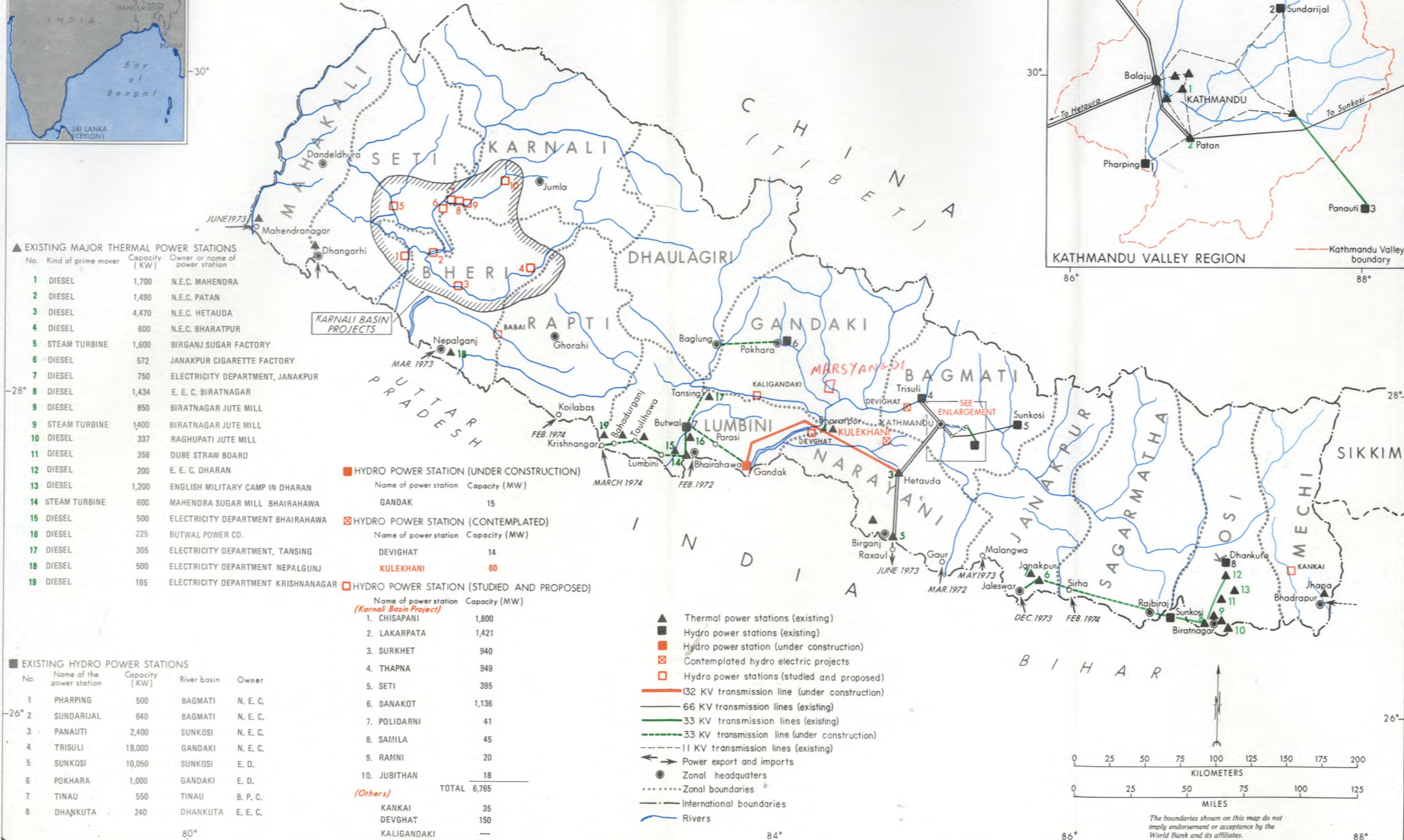
TIFFEN Color Control Patches © The Tiffen Company, 2007

Blue	Cyan	Green	Yellow	Red	Magenta	White	3/Color	Black
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NEPAL LOCATION OF EXISTING AND FUTURE POWER INSTALLATIONS

IBRD-10107R3
NOVEMBER 1975



▲ EXISTING MAJOR THERMAL POWER STATIONS

No.	Kind of prime mover	Capacity (KW)	Owner or name of power station
1	DIESEL	1,700	N.E.C. MAHENDRA
2	DIESEL	1,490	N.E.C. PATAN
3	DIESEL	4,470	N.E.C. HETAUDA
4	DIESEL	600	N.E.C. BHARATPUR
5	STEAM TURBINE	1,600	BIRGANJ SUGAR FACTORY
6	DIESEL	572	JANAKPUR CIGARETTE FACTORY
7	DIESEL	750	ELECTRICITY DEPARTMENT, JANAKPUR
8	DIESEL	1,434	E. E. C. BIRATNAGAR
9	DIESEL	850	BIRATNAGAR JUTE MILL
9	STEAM TURBINE	1,400	BIRATNAGAR JUTE MILL
10	DIESEL	337	RAGHUPATI JUTE MILL
11	DIESEL	356	DUBE STRAW BOARD
12	DIESEL	200	E. E. C. DHARAN
13	DIESEL	1,200	ENGLISH MILITARY CAMP IN DHARAN
14	STEAM TURBINE	600	MAHENDRA SUGAR MILL BHAIRAHAWA
15	DIESEL	500	ELECTRICITY DEPARTMENT BHAIRAHAWA
16	DIESEL	225	BUTWAL POWER CO.
17	DIESEL	305	ELECTRICITY DEPARTMENT, TANSING
18	DIESEL	500	ELECTRICITY DEPARTMENT NEPALGUNJ
19	DIESEL	165	ELECTRICITY DEPARTMENT KRISHNANAGAR

■ HYDRO POWER STATION (UNDER CONSTRUCTION)

Name of power station	Capacity (MW)
GANDAK	15

⊠ HYDRO POWER STATION (CONTEMPLATED)

Name of power station	Capacity (MW)
DEVIGHAT	14
KULEKHANI	60

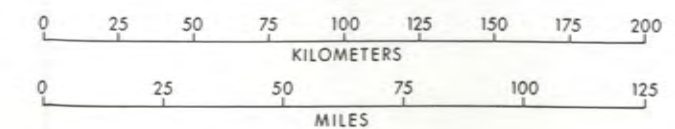
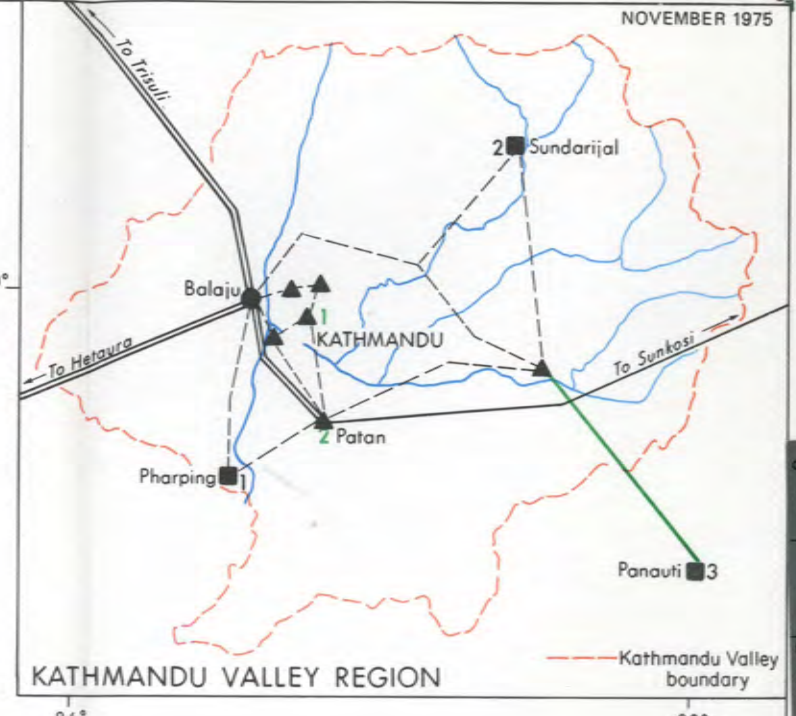
□ HYDRO POWER STATION (STUDIED AND PROPOSED)

Name of power station	Capacity (MW)
<i>(Karnali Basin Project)</i>	
1. CHISAPANI	1,800
2. LAKARPATA	1,421
3. SURKHET	940
4. THAPNA	949
5. SETI	395
6. BANAKOT	1,136
7. POLIDARNI	41
8. SAMILA	45
9. RAMNI	20
10. JUBITHAN	18
<i>(Others)</i>	
KANKAI	35
DEVGHAT	150
KALIGANDAKI	—
TOTAL	6,765

■ EXISTING HYDRO POWER STATIONS

No.	Name of the power station	Capacity (KW)	River basin	Owner
1	PHARPING	500	BAGMATI	N. E. C.
2	SUNDARIJAL	640	BAGMATI	N. E. C.
3	PANAUTI	2,400	SUNKOSI	N. E. C.
4	TRISULI	18,000	GANDAKI	N. E. C.
5	SUNKOSI	10,050	SUNKOSI	E. D.
6	POKHARA	1,000	GANDAKI	E. D.
7	TINAU	550	TINAU	B. P. C.
8	DHANKUTA	240	DHANKUTA	E. E. C.

- ▲ Thermal power stations (existing)
- Hydro power stations (existing)
- Hydro power station (under construction)
- ⊠ Contemplated hydro electric projects
- Hydro power stations (studied and proposed)
- 132 KV transmission line (under construction)
- 66 KV transmission lines (existing)
- 33 KV transmission lines (existing)
- 33 KV transmission line (under construction)
- 11 KV transmission lines (existing)
- ↔ Power export and imports
- Zonal headquarters
- Zonal boundaries
- International boundaries
- Rivers



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

Centimetres

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

INCHES

1 2 3 4 5 6 7 8 9 10 11 12

Black

3/Color

White

Magenta

Red

Yellow

Green

Cyan

Blue

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532/5/22

NEPAL
IDA CREDITS (FY70-Present)
DATA SHEET

Credit No.	Name of Project	Amount* (US\$M)	Date Signed	Date Effective	Current Closing Date	Total Disbursed as of 2/29/80 (US\$M)
166	Telecommunications	1.78	11/10/69	2/26/70	9/30/76	1.78**
223	Highway	2.17	12/21/70	2/3/71	6/30/77	2.17**
291	Kathmandu Tourism	3.20	3/22/72	11/9/72	12/31/77	3.20**
Sub-Total for fully disbursed Credits		<u>7.15</u>				<u>7.15</u>
373	Birganj Irrigation - Narayani Zone	6.00	4/18/73	7/9/73	6/30/80	5.46
397	Second Telecommunications	5.50	6/20/73	9/11/73	6/30/80	3.03
470	Water Supply & Sewerage	7.80	5/8/74	6/26/74	6/30/81	7.50
470-1	Water Supply & Sewerage	4.00	5/27/77	11/17/77	6/30/81	0.54
505	Settlement	6.00	8/14/74	2/20/75	7/15/82	1.17
600	Kulekhani Hydroelectric	26.00	1/9/76	5/18/76	12/31/82	16.04
600-1	Power (Kulekhani Supp.)	14.80	6/18/79	1/21/80	12/31/82	0.00
617	Rural Development	8.00	4/30/76	7/15/76	12/31/81	1.79
654	Bhairawa-Lumbini Groundwater	9.00	7/9/76	11/16/76	6/30/81	5.38
659	Technical Assistance	3.00	9/16/76	11/16/76	12/31/80	1.05
704	Second Water Supply & Sew.	8.00	5/27/77	2/28/78	6/30/82	1.02
705	NIDC	4.00	5/27/77	2/17/78	12/31/81	0.37
730	Second Highway	17.00	10/19/77	12/23/77	12/31/82	4.34
772	Technical Education	5.70	4/14/78	7/11/78	9/30/83	0.09
799	Third Telecommunications	14.50	8/22/78	2/27/79	6/30/84	0.00
812	Sunsari Morang Irrigation	30.00	7/7/78	11/30/78	6/30/84	0.55
856	Narayani Zone Irrig. Dev.	14.00	11/27/78	1/8/79	12/31/83	0.14
939	Rural Development II	11.00	8/9/79	1/15/80	2/28/85	0.00
Total for Nepal		<u>201.45</u>				<u>55.62</u>

* Net of cancellations
** Fully disbursed

South Asia Programs
Division C
March 28, 1980

NEPAL

DISBURSEMENT SUMMARY

IDA

	<u>1/</u>	<u>FY80</u>	<u>FY79</u>	<u>FY78</u>	<u>FY77</u>
1. Undisbursed opening balance as of 7/1 (US\$m)		147.9	92.9	81.9	59.9
2. Total annual disbursements as of 6/30 (For FY80 total is from July 1, 1979 thru January 31, 1980)		10.6	18.2	11.4	5.9
3. 2 as % of 1		7.2	19.6	13.9	9.8

1/ Includes all credits signed as of 7/1.

March 19, 1980

NEPAL

(\$ Millions)

	<u>IDA Disbursements</u>		<u>IDA Commitments</u>	
	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
FY70	-	-	1.7	1.7
FY71	0.1	0.1	2.5	4.2
FY72	0.2	0.3	4.2	8.4
FY73	0.7	1.0	11.5	19.9
FY74	1.5	2.5	13.8	33.7
FY75	1.7	4.2	-	33.7
FY76	2.7	6.9	34.0	67.7
FY77	5.9	12.8	28.0	95.7
FY78	11.4	24.2	67.2	162.9
Exchange adjustment thru FY78	.1	24.3		
FY79	18.2	42.5	39.8	202.7
FY80	13.1	55.6		Less cancellations
(thru February 29, 1980)				201.4

South Asia Programs
Division C
March 28, 1980

NEPAL

Actual and Proposed Lending Program

Project	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
Narayani Irrigation		14.0						
Irrigation V (Mahakali)			16.0					
Irrigation VI (Babai)				3.0				
Irrigation VII						30.0		
Irrigation VIII								40.0
Grain Storage			6.2					
Grain Storage II							10.0(R)	
Terai Area Dev.						19.0(S)		
Terai Area Dev. II								30.0
Hill Food Production					35.0(S)			
Forestry			17.0					
Forestry II							25.0(S)	
Rural Dev. II		11.0						
Extension & Training					31.0(S)			
Telecom. IV						20.0		
Cottage Industries					10.0			
Transport III						20.0		
Transport IV								40.0
Water Supply III				27.0(S)				
Water Supply IV							35.0	
Kulekhani (Suppl.)*		14.8						
Power II (Marsyangdi)				51.0				
Power III							45.0(S)	
Education II				10.0				
Education III							15.0(R)	
Technical Assistance II					4.0(R)			
	67.2	39.8	39.2	91.0	76.0	89.0	105.0	110.0
	(4)	(2)*	(3)	(4)	(3)	(4)	(3)	(3)
IDA-Five			146.2					
			(9)*					

* Suppl. credit not counted in number of projects.

South Asia Programs
Division C
March 26, 1980

N E P A L

Ongoing Projects

1. Credit No. 373 - Birganj Irrigation Project (Narayani Zone)

Due to cost overruns, the project scope has been reduced. Progress is satisfactory.

Credit Amount:	US\$6.0 million
Total Project Cost:	US\$10.1 million
Date of Signing:	April 18, 1973
Closing Date:	June 30, 1980
Undisbursed Balance (February 29, 1980)	US\$0,5 million

The project is designed to introduce perennial irrigation to allow double cropping, increasing the production of rice, wheat, sugarcane, oilseeds and vegetables to more than twice their present level. The project included completion of a canal distributory system to irrigate 28,700 ha in the Birganj area, and construction of a tubewell irrigation scheme to cover 2,700 ha in adjoining areas. The project also provides drainage, on-farm development, service roads, agricultural extension, research and advisory services and feasibility studies of additional irrigation projects.

Implementation of the project was initially delayed by Government's delay in appointing consultants, slow field surveys and procurement difficulties. These problems have been resolved. In 1975 some of the canal banks and other structures were damaged by unusually heavy floods. This, together with rising prices, has contributed to cost overruns of approximately 50% of appraisal estimates. It was agreed to reduce the area irrigated by surface water by 12,700 ha, which would allow implementation within available funds. The remaining area is being financed and completed under the Narayani Zone Irrigation II Project, Cr. No 856.

All Contracts have been awarded. Construction of tubewells is practically completed. Irrigation operations started in 1976 from nine tubewells, and in 1977, in the first surface irrigation block. The project should be completed by mid-1980.

Water charges are now being levied in the areas reached by irrigation, and farmers' acceptance has been satisfactory.

2. Credit No. 397 - Telecommunications Project II

No problem affects progress of the project.

Credit Amount:	US\$5.5 million
Total Project Cost:	US\$7.9 million
Date of Signing:	June 20, 1973
Closing Date:	June 30, 1980
Undisbursed Balance (February 29, 1980)	US\$2.5 million

The Credit helps finance Nepal's second telecommunications program (July 1974 - July 1979), which comprises the modernization and further expansion of telecommunications facilities. The project will add 10,600 subscribers' lines to the telephone network, thereby doubling the existing capacity. It also includes expansion of telex facilities, international and domestic HF radio station terminals, microwave systems, and multiplexing equipment to provide about 150 long-distance circuits. The Credit also provides vehicles, tools, testing and training equipment, consultants and buildings.

Initial lack of continuity in management and delay in appointing an expert to assist with preparation of bidding documents, put the project about two years behind schedule. Good progress is now being made with the appointment of the General Manager and with assistance of consultants and experts provided through the Overseas Development Administration of the United Kingdom. Due to major increase in the number of calls made by subscribers in Kathmandu, resulting from increased economic activity, it was necessary to provide additional switching equipment in the Kathmandu exchange and reduce provision for connecting additional subscribers in other exchanges by 18%. Present estimates allow for completion by late 1980, about two years behind schedule. The Closing Date will need to be postponed.

3. Credit No. 470 - Water Supply and Sewerage Project

Due to cost overrun, a supplementary credit was necessary. Fulfillment of the agreed rate of return has been delayed.

Credit Amount:	US\$11.8 million*
Total Project Cost (Revised)	US\$16.4 million
Date of Signing:	May 8, 1974
Closing Date (Revised):	July 31, 1981
Undisbursed Balance (February 29, 1980)	US\$3.8 million

The Credit helps finance improvement and expansion of water supply facilities in Kathmandu Valley and Pokhara, and sewerage facilities in Kathmandu and Lalitpur, a suburb of Kathmandu. By providing reliable water supply and central sewer systems, the project will help reduce health hazards and will also benefit tourism -- an important foreign exchange earner for Nepal.

The Water Supply and Sewerage Board (WSSB) has been established and consultants have completed the final design of all components. All major contracts have been let. Although progress has been delayed about two years from the original completion date, it is now progressing at a better pace. The most critical problem which appears to be developing is WSSB's earnings position, as estimates for the earnings for the fiscal year 1979 and 1980 reflect rates of return below the covenanted 2%. This, coupled with the other major problem, Government failure to pay for stand-post water supplies, could create a cash flow problem if not resolved in accordance with the newly dated covenants of the EEC Special Action Credit. Three experts provided by the British Overseas Development Administration are assisting WSSB in operation of water production and distribution facilities and in water quality control and surveillance. Mainly because of price escalations, cost overruns of \$6.4 million equivalent were encountered and a Supplementary Credit for \$4.0 million to assist in financing these overruns was approved on April 25, 1977. An EEC Special Action Credit (US\$3.0 million) was approved on July 3, 1979.

*Includes Supplementary Credit for \$4.0 million

4. Credit No. 505 - Settlement Project

Credit Amount:	US\$6.0 million
Total Project Cost:	US\$11.5 million (at appraisal)
Date of Signing:	August 14, 1974
Closing Date:	July 15, 1982
Undisbursed Balance (February 29, 1980)	US\$4.8 million

The seven-year project consists of (a) felling of heavy timber on 18,600 ha of land by the Timber Corporation of Nepal (TCN) over a period of five years; (b) sale of logs in the initial period, followed by sawmilling and sale of lumber when sawmills are established by TCN; (c) settlement of about 7,000 families by the Nepal Resettlement Company; (d) provision of timber extraction and sawmilling equipment, farm inputs, settlement infrastructure (including villages, village roads, warehouses, schools, clinics, extension services, agricultural credit); and (e) technical assistance.

The project has an estimated rate of return to the economy of 42% and will provide net incremental timber value of \$7.0 million along with gross annual agricultural production worth \$2.9 million.

The Government has requested informally that we consider reducing the size of the project to about 11,100 ha. Since government policy is now to provide only 1.3 ha per settler family under its own schemes as opposed to 2 ha allotted under the IDA scheme, we are proposing that the allotment under the project be reduced to 1.5 ha in order that benefits accruing to settlers under this project would not be greatly above the average attained under government schemes. At 1.5 ha, the reduced project would accommodate about 6,250 families as opposed to 7,900 at appraisal.

Plans by the Resettlement Company are progressing satisfactorily while implementation of the forestry component is three years behind schedule and is progressing at a slow pace. The main reasons are limited management capability of TCN, shortage of some equipment and Government prohibition of the export of sal log. TCN has now appointed a management adviser and is seeking Government approval for the export of sal logs. By the end of the last dry season in June 1979, about 2,900 ha of settlement area had been cleared, compared to the original appraisal estimate of 15,800 ha. About 1550 families have now been settled at Kanchanpur and Bardia. The appointment of a management consulting firm to be responsible for overall project implementation is being considered and the Secretary of Forest has agreed to the terms of reference for a study of TCN management. However, progress continues to be slow and prospects of badly needed drastic improvement are limited. Consideration is being given to ways for simplifying the technology used in cutting and clearing the forest and adjusting the rate of felling to the capacity of sawmills. At the same time HMG action is still pending on: (a) permission to export sal logs; and (b) appointment of TCN staff including the Deputy General Manager and Project Manager for Kanchanpur.

5. Credit No. 600 - Kulekhani Hydroelectric Project

Credit Amount:	US\$40.8 million
Total Project Cost (Revised):	US\$116.0 million
Date of Signing:	January 9, 1976
Closing Date (Revised):	December 31, 1982
Undisbursed Balance: (February 29, 1980)	US\$24.7 million

See field trip material for description of project.

6. Credit No. 617 - Rural Development Project

No major problem affects the progress of this project.

Credit Amount:	US\$8.0 million
Total Project Cost:	US\$10.9 million
Date of Signing:	April 30, 1976
Closing Date	December 31, 1981
Undisbursed Balance:	US\$6.2 million
(February 29, 1980)	

See field trip material for description of project.

7.

Credit No. 654 - Bhairawa-Lumbini Groundwater Project

Credit Amount:	US\$9.0 million
Total Project Cost:	US\$13.7 million
Date of Signing:	July 9, 1976
Closing Date:	June 30, 1981
Undisbursed Balance:	US\$3.6 million
(February 29, 1980)	

The project involves the construction of 63 tubewells, each with a storage reservoir, which would permit year-round irrigation on a total of 7,500 ha. The project area, located near Bhairawa in the Western Terai, is now limited to one crop per year under rainfed conditions. The project also includes the construction and improvement of village roads, construction of an 11 KV transmission system to electrify the wells, additional grain storage capacity, and strengthening of the agricultural support services, particularly the extension service, and the provision of agricultural inputs and production credit. Finally, the project includes consultants' services for assistance in project implementation and the preparation of a feasibility study for a future tubewell project in adjacent areas, and a study of water charges in Nepal. Total cost is estimated at US\$13.7 million equivalent of which US\$6.8 million equivalent is in foreign exchange.

The project is expected to increase foodgrain production by approximately 30,000 tons annually and have a 19% rate of return to the economy. The feasibility study for the project was financed from funds under Credit 373-NEP (Birganj Irrigation).

The Project Manager and consultants, Tahal (Israel), have been appointed, and the Project Coordinating Committee has been formed. Procurement of equipment has been virtually completed and drilling of tubewells is in progress. Approximately 30 production wells have been completed. Civil works for these wells is underway. Recent supervision missions have discussed ways for expediting procurement with the Project Authority and the consultants, for ensuring that tubewells can be energized from local power supplies, and for strengthening the agricultural staff on the project. Construction of village link roads has started. However, there is delay in implementation due to the weakness of contractors in the project area, and delay in construction of transmission lines. Approximately a 20% cost overrun is anticipated.

Nepal
Ongoing Projects

8. Credit No.659 - Technical Assistance Project

Credit Amount:	US\$3.0 million
Total Project Cost:	US\$4.0 million
Date of Signing:	September 16, 1976
Closing Date:	December 31, 1980
Undisbursed Balance:	US\$1.9 million
(February 29, 1980)	

Nepal's limited absorptive capacity is a major constraint in accelerating development. The need for technical assistance is, therefore, great.

The project assists the Government in the preparation of feasibility studies and design and engineering work in order to develop a pipeline of high priority projects suitable for financing by IDA and/or other donors. Uses for the funds are not specified in detail in the Development Credit Agreement in order to maintain flexibility in implementation. However, emphasis is being placed on the preparation of projects in the agricultural and small industries sectors. Studies have been completed for a silica-lime brick factory, a grain storage project and an agricultural extension project (the latter two are proposed for IDA financing). Studies are underway for projects for river control for the Sunsari-Morang irrigation project, cottage industries, an agricultural manpower survey, and an air-borne geophysical survey. Studies are being initiated for projects for a leather tanning industry, and electrical accessories production. Approximately \$350,000 remain uncommitted.

Due to delays in identification of sub-projects and appointment of consultants, disbursements have been slow. These are now picking up with progress on the above mentioned studies.

The Government has recently agreed to utilize the uncommitted amount for additional sub-projects for: identification of a Terai area development project and assistance to mechanical workshops for three IDA assisted irrigation projects.

Discussions regarding a second technical assistance credit, are underway (see Prospective Projects).

9. Credit No. 704 - Second Water Supply and Sewerage Project

Credit Amount:	US\$8.0 million
Total Project Cost:	US\$11.3 million
Date of Signing:	May 27, 1977
Closing Date:	June 30, 1982
Undisbursed Balance: (February 29, 1980)	US\$7.0 million

The Credit will help finance the extension of water supply and sewerage facilities in Kathmandu Valley, Biratnagar, Birganj and Pokhara. The project would reduce health hazards in the project areas and improve sanitation. The project also includes an important element of institution-building and technical assistance. Engineering consultants have been engaged and master plan updating, final design, and feasibility studies for follow-up projects in six towns outside the Kathmandu Valley have been completed. Evaluation of all major contracts is underway.

It is unlikely that WSSB will be able to meet the required rate of return of 2% for the fiscal year ending July 15, 1979, which is the first year of such a requirement. WSSB earnings fell short of this requirement, principally due to delay in completion of works and its inability to initiate revised tariffs as anticipated at appraisal. A tariff study for water supply and sewerage services has been completed and is under review. Revision of tariffs is crucial for WSSB's financial viability and the development of the sector.

An EEC Special Action Credit of about US\$3 million equivalent was approved on July 3, 1979, to assist in financing the Government's share in the local cost.

10. Credit No. 705 - Nepal Industrial Development Corporation (NIDC) Project

Credit Amount:	US\$4.0 million
Total Project Cost:	US\$17.0 million
Date of Signing:	May 27, 1977
Closing Date:	December 31, 1981
Undisbursed Balance:	US\$3.6 million
(February 29, 1980)	

The UNDP-financed policy advisor took up his post in February, 1978, and completed his assignment in December 1979. The accounting and information systems advisor has taken up his post in February 1980, also under UNDP financing. Section 2.03(a) of the DCA has been amended in February 1979, to allow for disbursement against 60% of the costs of civil works and building construction of subloans to cover the foreign exchange content, in addition to the usual foreign exchange cost of goods and services (machinery and equipment) for which documentation is available. To date, subprojects for about \$1.7 million have been approved by IDA. Progress in implementation of the credit has been slow due to the continued low level of private investment in Nepal and the absence of NIDC project identification and promotion efforts; disbursements have continued to lag due to slow commitment. We advised the Government and NIDC that more effort should be made to improve promotion, project identification and preparation.

The major constraint facing NIDC is the shortage of local currency resources. In the past, NIDC has relied on the Central Bank for refinance of local currency lending, but this is no longer available due to a shortage of funds. NIDC operations are currently at a standstill (including the foreign exchange disbursements for which funds are available), pending resolution of this matter.

11. Credit No. 730-NEP - Second Highway Project

Credit Amount:	US\$17.0 million
Total Project Cost:	US\$20.0 million
Date of Signing:	October 19, 1977
Closing Date:	December 31, 1982
Undisbursed Balance (Feb. 29, 1980):	US\$12.6 million

The project is an extension of the First Highway Project (Cr. 223-NEP) which was completed in July 1977, and assisted maintenance efforts mainly within the Central Region. The project is to upgrade a nationwide maintenance program with the rapid expansion of the road network, together with improving sections of older roads. It consists of the following parts: (i) the construction by contract of the 50 km Tulsipur feeder road together with improvement of local connecting roads; (ii) the procurement of construction equipment and spares to be used by contractors in constructing the above road; (iii) upgrading of the main Thankot-Naubise road by widening, partial realignment and strengthening pavement; (iv) support for a five-year maintenance program through procurement of maintenance equipment and tools and through construction of two maintenance workshops; (v) provision of consultancy services for supervision of construction and for feasibility studies on the Kohalpur-Mahakali section of the East-West highway; and (vi) provision of training equipment and execution of training for equipment mechanics.

Project implementation is nearly two years behind schedule, and delays seem likely to continue. Problems, which are predominantly managerial, have not been resolved over the past year. Collection and monitoring of data on physical and financial progress has started but is not yet completely satisfactory. During a Supervision Mission last October, the problem of inadequate budgetary support, which had resulted in severe cash flow problems for contractors, was resolved within the Ministry of Finance. However, the time taken by Government to make recommendations on procurement remains excessive. Technical problems are inadequately addressed by government engineers, possibly due to the lack of experience, knowledge, authority or motivation. At times, IDA guidelines for procurement are not carefully followed.

Tulsipur Feeder Road: There were delays of six months in awarding construction contracts and serious delays continue in providing the necessary construction equipment to contractors. Progress to date on construction works is negligible, due mainly to lack of plant, cement, and blasting materials. Consultants for supervision were not appointed until several months after award of the first construction contracts despite specific covenants requiring consultant appointment prior to contract award. The existing consultancy agreement is likely to expire before

construction completion. Price escalation effects, exacerbated by delays, are estimated to add at least 20 percent to contract costs.

Procurement of Construction Equipment: There were inordinate delays of about twelve months in award of construction equipment supply contracts for the Tulsipur feeder road. Due to expiry of bid validities, lowest evaluated bidders for compaction equipment refused to accept awards, and these items are at present being re-tendered. Lack of equipment is seriously delaying execution of the Tulsipur road construction. Borrower's initial documentation of award recommendations has been generally inadequate despite specific requests for standard requirements to be met. Recently agreed documentation requirements will, if met by HMG, eliminate this problem.

Thankot-Naubise Road: Improvement of the Thankot-Naubise road through widening, pavement reconstruction and partial realignment is being carried out by contract. Extremely severe terrain and lack of an alternative route for traffic make construction conditions very difficult. Supervision is by the Roads Department with CIDA providing limited advisory support. Three contracts each covering earthworks, drainage and retaining walls were let in May 1978. A contract for paving work has not yet been let. Progress was fair until early February 1979 when work on vital drainage and retaining wall work was stopped by government, due to expected cost overruns on the road. The relevant credit category is only partially disbursed, and IDA has stated that the requested reallocation from unallocated category is acceptable in principle but will not be effected until relevant category is fully disbursed. Work on drainage and retaining walls, essential to safety of road during the coming monsoon, was resumed in March. Contractors are suffering from severe cash flow problems due to increased costs of labor and materials and failure of Roads Department to process payments in a timely fashion. Labor availability is now restricted by agricultural demands. The quality of supervision provided by Roads Department is improving at the site level, but greater headquarters' interest and support are required. The construction of pavement is likely to pose serious problems due to restricted formation width and lack of an alternative traffic route. Construction is about one year and a half behind program. We have proposed that consultants be appointed to supervise construction of component.

Maintenance Support Program: The maintenance support program comprises procurement of maintenance equipment in two phases: construction of two workshops and procurement of workshop equipment. First-phase maintenance equipment procurement was programmed for completion end-March 1979. After about six months spent in evaluating bids, orders for about half of the equipment were placed in late 1978. Recommendations for award for tippers, water distributors and wheeled loaders, representing 25 percent of this phase, were not acceptable to IDA, and they are at present being re-tendered. Procurement of the second-phase equipment has not yet commenced and is some 18 months behind program. This is not unreasonable since it is linked to presently incomplete CIDA reassessment of maintenance equipment requirements. Construction of the two workshops has commenced. Proposals for workshop equipment procurement, due mid 1978, were reviewed in the field by a supervision mission (October 20-26).

Consultancy Services: Consultancy services comprise supervision of the Tulsipur road construction, a study of the Thankot-Naubise road and a prefeasibility study and possible detailed study of part of the East-West highway. Services for supervision of the Tulsipur road were delayed but have now commenced. The study of pavement and slope stability on the Thankot-Naubise road was completed satisfactorily. The prefeasibility study of the East-West highway is complete and being examined to decide on the desirability of further detailed study.

Mechanic Training: Mechanic training, due to have started in mid 1978, is 18 months behind program. Credit funds are insufficient to finance both equipment procurement and training. IDA-initiated discussions with UNDP will probably lead to UNDP financing training, with IDA financing training equipment.

Nepal

Ongoing Projects

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12. Credit No. 772 - Technical Education Project

Credit Amount	US\$5.7 million
Total Project Cost:	US\$7.8 million
Date of Signing:	April 14, 1978
Closing Date:	September 30, 1983
Undisbursed Balance: (February 29, 1980)	US\$5.6 million

This project is designed to satisfy the demand for middle and low-level technical manpower through: (a) establishing a new diploma program (grades 13-15) in civil engineering at the central campus of the Institute of Engineering; and (b) improving the present low quality of training at the same campus at the certificate level (grades 11-12). Physical facilities and teaching equipment are being provided by IDA and technical assistance is being provided by ODA (US\$1.1 million) under the project. In conjunction with the project, three feasibility studies were to be carried out by the Government by June 30, 1979 which would examine: (a) primary education with emphasis on female participation and retention rates; (b) trade level skills, developing a plan for rationalizing trade training on a national basis and designing the content and delivery system of a rural skill training program; and (c) the need for establishing a trade and certificate-level engineering institute in the Western Development Region (Pokhara). UNESCO will finance study (a) and ODA has agreed to finance (b) and (c). Study (a) was prepared last year, but found not particularly useful; study (b) is ongoing and expected to be ready by March 1980 and study (c) will be ready by December 1979.

Good progress towards implementation has been made -- contracts for all civil works, except external works have been let. However, tendering for equipment is 8 months behind schedule. A team of educational experts, financed by ODA, have begun work in the field and a program of cooperation with Paisley College of Technology, Scotland, is progressing satisfactorily. The first batch of fellowship students have completed their programs and the second batch have initiated theirs.

Due mainly to price increases for steel and cement, a 10% cost overrun on project costs is anticipated.

Nepal

Ongoing Projects

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13. Credit No.799 - Telecommunications III

Credit Amount:	US\$14.5 million
Total Project Cost:	US\$25.6 million
Date of Signing:	August 22, 1978
Closing Date:	June 30, 1984
Undisbursed Balance: (February 29, 1980)	US\$14.5 million

The project is NTC's Third Five Year Plan. It includes the expansion of international, long-distance and local telephone facilities with an increased emphasis on the needs of rural areas and improvement and expansion of telex facilities. To meet the need for expanded and improved international facilities, the project includes a small satellite ground station. Total cost of the project is estimated at approximately \$25.6 million of which \$17.5 million would be in foreign exchange. U.K. has agreed to finance the balance of the foreign exchange.

Procurement action has had a late start on components financed under both the IDA credit and UK assistance. In the interest of efficiency and economy, procurement of some components is being combined with components under Credit No. 397.

Ongoing Projects

14. Credit No.812 - Sunsari-Morang Irrigation and Drainage

Credit Amount:	US\$30.0 million
Total Project Cost:	US\$37.5 million
Date of Signing:	July 7, 1978
Closing Date:	June 30, 1984
Undisbursed Balance: (February 29, 1980)	US\$29.5 million

The project comprises river training and flood protection works at the Chatra Main Canal (CMC) intake on the Kosi River: desilting arrangements, structural restoration works, improved and additional operation controls, and roads along the whole length of the CMC (about 55km); restoration of canal distribution and drainage systems throughout the whole command area of 66,000 ha; construction of complete drain and tertiary canal systems within an area of the planning and design of such layouts for a further area of 12,000 ha; pilot trails for groundwater exploitation, control of waterlogging, improved on-farm water management and irrigation practices; an agricultural and engineering field training center for the Eastern Region, to be located in the project area; intensified agricultural extension services in the two Districts of Sunsari and Morang; technical services for consultants and staff training; building and equipment for force account construction as well as operation and maintenance of the project. Total project cost is estimated at approximately \$37.5 million.

Work has been initiated on studies for the desilting arrangements and river works, and controls, financed under the technical assistance credit, and Cr. 654 (Bhairawa-Lumbini Groundwater Project).

The Project Board has been established, the Project Manager and Project consultants appointed and the Senior Agricultural Officer selected.

Contracts for priority works have been awarded. Procurement action for equipment and civil works for Chatra Main Canal is underway.

An EEC Special Action Credit of US\$4.0 million equivalent was approved on June 21, 1979, to help finance part of the Government's share in the local cost.

Ongoing Projects

15. Credit No. 856 - Narayani Zone Irrigation Development Stage II

Credit Amount:	US\$14.0 million
Total Project Cost:	US\$17.0 million
Date of Signing:	November 27, 1978
Closing Date:	December 31, 1983
Undisbursed Balance: (February 29, 1980)	US\$13.9 million

The project upgrades and increases the capacity of the existing Nepal Eastern Canal (NEC) irrigation system and extends the development of its command area which was begun under the ongoing Birganj Irrigation Project (Cr. 373-NEP) (Stage I). The project includes the improvement of NEC's remaining length (52 km) beyond that restored (27 km) under Stage I; protection of NEC against flood damage; further development of the NEC command's irrigation distribution system; drainage network and canal service roads in 12,700 ha, and improvement of those constructed in 16,000 ha in Stage I, thus completing irrigation infrastructure throughout 28,700 ha; pilot schemes for privately-owned community tubewells, waterlogging control, low-cost all-weather roads and micro-hydroelectric development; and expansion of the intensified agricultural extension and training scheme started in two Districts under Stage I; and the provision of technical services including consultants. The project increases agricultural production and employment opportunities for the 216,000 inhabitants in the NEC command area and improves agricultural practices and productivity in six Districts in the Terai.

Procurement has been initiated and the Consultants appointed. Civil works construction is underway. Shortage of cement may become a constraint on progress of construction. The Ministry of Water, Power and Irrigation is giving high priority to provision of cement. A feasibility study for a pilot micro-hydroelectric station at Tilawe Barrage proved it to be uneconomical, and it will be deleted from the project works. An ADBN survey indicates strong demand for the community tubewell scheme.

16. Credit No. 939 - Rural Development II

Credit Amount:	US\$11.0 million
Total Project Cost:	US\$13.5 million
Date of Signing:	August 9, 1979
Effectiveness Date: (revised)	January 15, 1980
Undisbursed Balance: (February 29, 1980)	US\$11.0 million

The project would help develop the three Hill districts of Dandeldura, Baitadi, and Darchula and aims to raise agricultural production to levels whereby farmers could meet full family subsistence. The project would provide for increased agricultural and livestock production through minor irrigation development, strengthening of agricultural extension and animal health services, training, and improved availability of farm inputs. These directly productive investments would be complemented by investments in erosion control, health care, village water supplies, lower and upper secondary education, postal services, panchayat facilities, and trails and foot-bridges. The project also provides for a study of cottage industry potential and prospects, as well as for facilities and staff required for project implementation. The Project Coordinator was finally named, and project activities are roughly one year behind schedule.

March 20, 1980

N E P A L

Prospective Projects

1. Forestry (US\$17.0 million - FY80)

The credit is proposed to finance the development of Hill forests at village level, nurseries, extension assistance, training, research into fast growing tree species, improved stove technology and feasibility studies. Total project costs are estimated at \$25 million of which about \$10 million would be in foreign exchange. USAID and UNDP would finance \$6.1 million of technical assistance and training. The project is scheduled for Board consideration on April 22, 1980.

2. Grain Storage (US\$6.2 million - FY80)

Inadequate storage and marketing of foodgrains results in sizable losses to the Nepalese economy. The project was prepared by APROSC, a local firm, financed under the Technical Assistance Credit. Negotiations are scheduled for early April and Board consideration for May 27, 1980. However, a condition of negotiations is a formal Government decision to merge the Nepal Food Corporation with the 8 Rice Export Companies. This appears to be a difficult decision for the Government to take in the current political situation. Therefore, there is some risk that negotiations may be delayed.

3. Irrigation V (Mahakali I) (US\$16.0 million - FY80)

Under a UNDP financed Bank executed project, feasibility studies have been prepared for surface irrigation development in the Far Western Region. Mahakali Stage I (6,600 ha) was appraised in January/February 1980. Negotiation is scheduled for May 1 and Board consideration for June 24.

4. Water Supply and Sewerage III (US\$27.0 million - FY81 (S))

The project comprises development of water supply to six towns outside the Kathmandu Valley, and further improvements to the water supply systems in the four areas now being developed under the second project. Expansion to the Kathmandu sewerage system is also included. Preparation was partly financed under the ongoing Water Supply II (Credit No. 704) and feasibility studies for the six towns as well as updating of the master plan have been completed. Additional groundwater investigation studies and preliminary engineering design are being financed under a Project Preparation Facility (\$250,000). The project was appraised in January 1980, and Board presentation is scheduled for June.

5. Marsyangdi Hydroelectric Project (US\$51.0 million - FY81)

The proposed project would provide electric power to the major consumption areas of Central Nepal. The project involves the construction of a base-load hydroelectric power station with a capacity of 50 MW to 70 MW. The site proposed for the dam and for power generating facilities is the Marsyangdi River, 85 km west of Kathmandu in Central Nepal. The water would be diverted over a weir with retractable gates through a 7,000 m long tunnel and an intermediate storage reservoir to the power plant. The volume of water flow amounts to more than 40 m³/sec with an effective drop of 75 m. The project includes construction of a 40-km long 132-kV transmission line to link up with the Central Nepal power grid. The total construction period is estimated at approximately four years. The project is estimated to cost about \$100 million. Cofinancing with Germany is being arranged. A joint pre-appraisal mission in February agreed on terms of reference for detailed engineering design studies, to be financed by Germany. Completion of these studies is expected only in early 1981, which may cause the project to slip to FY82.

6. Education II (US\$10.0 million - FY81)

The project is being identified as one out of three being prepared under the ongoing Technical Education Project, with assistance from UNESCO and ODA: (a) primary education with emphasis on female participation and retention rates; (b) trade level skills, developing a plan for rationalizing trade training on a national basis and designing the content and delivery system of a rural skill training program; and (c) the need for establishing a trade and certificate-level engineering institute in the Western Development Region (Pokhara). Preparation has been suspended at HMG request, pending identification of HMG policy for primary education and its impact on Government resources.

7. Irrigation VI (Babai) (US\$3.0 million - FY81)

The project would comprise studies, detailed engineering, tender documents preparation and preliminary works as a first phase leading to irrigation development from the Babai River for 13,000 ha. Appraisal was started in January/February 1980. Further data needed to complete appraisal will be ready in May 1980. Early arrangements with India with regard to water rights would be required.

8. Second Technical Assistance (US\$4.0 million - FY81(R))

The project would provide assistance in project preparation and implementation and in institution building in support of ongoing and proposed IDA assisted projects. Subprojects could probably include the strengthening of Nepal Electricity Corp., Bhairawa-Lumbini supplementary consulting services and management advisors to APROSC and ISC. Preliminary discussions with the Government have been initiated. However, in the hope that these studies may be financed by grants, Government is delaying its decision on requesting a credit.

9. Hill Food Production (Up to US\$35.0 million - FY82(S))

The project would aim at increasing food production in the Hills with minor irrigation works and minimum package of inputs. The project was prepared by the IBRD/FAO/CP, and is scheduled for appraisal in April 1980.

10. Cottage/Small Scale Industry (US\$10.0 million - FY82)

This project is designed to promote cottage and small industries with a view to supplementing low farm incomes and creating employment opportunities particularly in the Hills, taking advantage of the traditional arts and crafts of Nepal and the ready market for these products created by increasing tourist arrivals.

Preparation of the project is financed under the Technical Assistance Credit and carried out by ISC, Kathmandu. ISC has prepared a project consisting of several export oriented components to be produced in a number of districts of Nepal.

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SUMMARY AND CONCLUSIONS

The Fifth Plan (1975/76 - 1979/80)

i. The Fifth Plan was to be a turning point in the development of Nepal. The first four plans, with their emphasis on physical infrastructure, especially roads, were to establish a foundation which later, more comprehensive development endeavors could build upon. It was thus believed that the country was poised for more rapid growth on the order of 4-5% annually. The level of investment was to increase by more than 70% in real terms over the Fourth Plan, and the focus of investment was to shift towards the more directly productive sectors and the social services.

ii. Public investment performance has, in fact, been excellent; development expenditures have grown at over 15% annually in real terms. The reasons for this impressive performance have been the Government's ability to increase the level of public savings, as well as a three-fold acceleration in the growth of foreign aid disbursements. If present trends continue, Fifth Plan investment targets should be achieved. The Government has also been relatively successful in reorienting its investment away from the transport sector towards agriculture and the social services; however, transport outlays still absorb the largest share of the development budget.

iii. Macroeconomic performance, however, has been poor. Mainly because of stagnant agricultural production, real GDP has grown at less than 2.5% annually. This poor agricultural performance has in part been the result of successive poor monsoons during the first two years of the Plan, but it also reflects the failure to more fully exploit irrigation infrastructure, diffuse improved agricultural technology, and strengthen support services. The trade deficit has widened steadily, largely due to declining rice exports to India. Rapidly growing tourism earnings and foreign aid disbursements, however, have covered these deficits and enabled Nepal to maintain adequate international reserves.

iv. The failure of Nepal's development efforts, especially under the Fifth Plan, to result in any significant improvement in living standards is of deep concern. Investment still amounts to about 10% of GDP, and its continued growth is constrained by (a) the increasingly difficult task of mobilizing additional domestic resources, (b) the limited absorptive capacity, and (c) the pressing demands for basic needs satisfaction of the rapidly growing population. The Government's ability to undertake new investments is further constrained by Nepal's serious ecological problems that are manifesting themselves in severe fuelwood shortages and soil erosion.

v. By every indication then, Nepal has reached a critical stage in its development. The country is caught in a vicious circle of poverty, and as difficult as it is to break this circle, the next five to ten years may represent Nepal's last chance to do so without having to become completely dependent upon the goodwill of aid donors. Nepal possesses, however, underutilized infrastructure that can be exploited at relatively low cost, provided that future investments are well focused. Such investments should form an integral part of the development program in the coming years; if they do, real economic growth of 4% per annum should be possible.

vi. All this highlights the importance of the current preparations of a Sixth Plan (1980/81-1984/85). The objectives and principles governing the plan have been issued, calling for growth of 5% per annum, a doubling of the investment level to 22% of GDP by 1984/85, a continued shift of investment in favor of directly productive activities and social services, and the achievement of ambitious physical targets across all sectors (see Postscript). While Nepal has genuine and urgent needs in all these sectors, it is almost certain that the cost of meeting them will greatly exceed available resources. It will thus be necessary to establish clear cut priorities so as to achieve as efficient use as possible of available resources. Important issues which will need to be addressed in this process include the desirable balance between (a) consumption and investment, (b) programs in the Hills versus the Terai and (c) investment in human versus physical capital.

The Directly Productive Sectors and Infrastructure

vii. If development is to have meaning in Nepal, it must extend out from the Terai and the Kathmandu Valley, where efforts are presently concentrated, and reach the people in the Hills and Mountains. The strategy outlined in this report requires an effort to increase the growth rate of agriculture to about 3% per annum, making possible an overall growth rate for the economy of 4%. Increased foodgrains production must form the foundation for this growth, but diversification into cash crops is also required as a basis for agro-industries and exports.

viii. In view of marketing difficulties and the low purchasing power of the Hills population, foodgrains production must increase in the Hills to enable it to meet a much larger portion of its own food requirements than is presently possible. Integrated rural development programs offer the best hope of addressing the variety of problems that have to be solved in order to establish economically viable household units. These include livestock development, fodder improvement, irrigation development, promotion of cottage industries as well as better access to improved seeds, fertilizer, and extension services.

ix. This renewed attention to the Hills need not compromise efforts to realize the Terai's considerable potential for increasing foodgrain production. The Terai's disappointing performance in recent years reflects, to a significant extent, the inadequate irrigation system which is designed more for extensive rather than intensive cultivation. Recent efforts to rectify these defects - increasing the capacity of reservoirs, regulating water supplies and extending channels down to farm levels - are all welcome developments. Provided existing infrastructure is more fully exploited, significant production increases at relatively low cost should be possible in the medium term.

x. Special attention is merited for programs to alleviate marketing and distribution bottlenecks which presently aggravate the Hill-Terai food imbalance and render agro-climatic specialization impractical. Marketing services will need to be extended to link the Hills with the Terai (and also within isolated Hill areas). Substantial increases in public distribution of foodgrains to deficit areas will be required in the coming years. Aside

from strengthening the operations of the National Food Corporation, the Government is considering a food security program to maintain a reserve stock for distribution purposes. In addition, serious thought should be given to rural construction works as the basis for food for work programs which would simultaneously address the twin problems of unemployment and food deficits in the Hills while also meeting its legitimate infrastructure needs. Careful administration of such programs is required to ensure that producer incentives are not eroded and that corruption and waste are avoided.

xi. At present, Nepal's comparative advantage rests clearly with agriculture. This reflects the lack of natural resources that might serve as the basis for industry, the unsatisfactory human resource base that limits its competitiveness, as well as Nepal's small domestic market and landlocked position. The multiplicity and complexity of the constraints to industrial development discourage any generalized approach, and Nepal would be well advised to be very selective in its industrial initiatives. The medium-term priorities include improving the performance of public enterprises and promoting cottage and selected small-scale industries. Tourism offers perhaps the best near-term potential for increased foreign exchange earnings; however, efforts are needed to reduce its capital intensity, strengthen linkages with other local industries, and disperse its benefits beyond the Kathmandu Valley. For the longer-term, there is a need to identify the industrial subsectors in which Nepal could be competitive. Joint ventures with India offer possibilities for establishing mutually beneficial activities; however, Nepal should also continue its own efforts to diversify exports to third countries. Energy intensive industries are at best a very long-run possibility, while the potential for mineral-based industries has yet to be assessed. Nepal might, however, consider promoting certain industries that improve labor skills, such as light engineering, even if these industries were not sufficiently competitive at present; such investments should be considered as part of the cost of long-term human resource development.

xii. The benefits of the above measures will not be fully realized unless the policy environment that entrepreneurs face is improved. The incentives for private industry have not yet proven effective and public enterprises have generally received preferential treatment. It is, therefore, not surprising that Nepalese private entrepreneurship is very sparse and foreign investment virtually non-existent. A number of actions might be considered including: simplifying the tax system; encouraging foreign investment through more liberal repatriation allowances; and providing special fiscal incentives for export endeavors.

xiii. In supporting infrastructure, the principal needs lie in the energy sector. The exploitation of Hill forests for fuelwood has created the specter of ecological disaster; large-scale afforestation programs are thus essential, along with ingenuity in meeting rural energy needs, through for example, more efficient wood burning stoves. Meeting demands for electric power is another formidable task. If the power constraints to industrial expansion are to be alleviated and the demands of urban residential users satisfied, Nepal will need additional generating capability of between 100 to 150 MW by 1990. In the long run, there is also a potential for very large-scale hydro-plants which would lead to power exports to India, but many legal, financial, and political issues between Nepal and India are yet to be resolved.

Proposals for road construction must be carefully scrutinized in view of existing low traffic densities and the burden on the recurrent budget of mounting maintenance expenditures. Emphasis should now turn to feeder roads, consistent with the decreased share in the budget of road expenditures in the coming years.

Human Resource Development

xiv. As awesome as the tasks of developing the directly productive sectors are, Nepal faces perhaps no less pressing human resource development needs. Nepal's demographic situation is among the worst in the world and is deteriorating steadily. The rate of population growth is now estimated at 2.6% per annum, and population density with respect to cultivated land far exceeds that of Pakistan, Bangladesh and India. Nepal's expenditures per capita on family planning are low relative to other developing countries, and this is reflected in the low awareness and use of modern contraceptive methods. Unless population planning programs are mounted now and sustained through the foreseeable future, rapid population growth will nullify much of the development effort.

xv. Well-focused programs in health and education can assist greatly in facilitating population planning, alleviating human suffering, and laying the basis for increased productivity in the future. The education sector has been notably successful in not only achieving but also exceeding enrollment targets set for the Fifth Plan. The task ahead would appear to be one of consolidation at the primary school level and expansion and rationalization at the higher and technical education levels. In carrying out these programs, attention should focus on (a) reducing dropout rates; (b) improving the quality of education, particularly in terms of strengthening the curriculum and training qualified teachers; and (c) increasing enrollment of females at all grade levels.

xvi. Despite steady progress, the people of Nepal suffer from health conditions that are among the worst in the world. Life expectancy is still only 45 years, infant death rates exceed 150 per thousand, and malnutrition afflicts a significant proportion of the population. Over-population accounts for some of these problems, leading to lower food availabilities, while poor environmental sanitation facilitates the spread of communicable diseases.

xvii. There is little that the health care system can do about the aggregate food supply, but health education can improve the distribution of food within families to ensure that those most at risk receive adequate nutrition. In addition, programs focusing on specific nutrient deficiencies can, at reasonable cost, confer enormous benefits. Provision of iodized salt, for example, can eliminate goiter which causes retardation of physical and mental growth, and in extreme cases, cretinism. Other health problems can be controlled if not eliminated through, for example, access to safe water supplies to impede transmission of water-borne diseases, use of stoves with chimneys to reduce respiratory and cardio-pulmonary disorders, and programs to control malaria and tuberculosis. While shortages of trained manpower will continue to limit expansion of the public health services, greater availability of basic drugs can do much to improve curative services, as well as facilitate the contact needed to disseminate preventive health education.

xviii. The extent of Nepal's basic needs deficiencies presents a difficult choice between the priorities that they should receive relative to programs designed directly to accelerate growth. In the Nepalese context, increased allocations to education and health will be made partly at the expense of programs, which directly or indirectly, aim at increasing food production, which is the most pressing basic need at this time. The conflict, therefore, is not only between expenditures for basic needs and those for growth related investment, but also among the various types of basic needs themselves. The challenge to HMG is thus not so much to meet these pressing requirements in the social sectors, but to do so in a way that is consistent with the at least as urgent need to raise production and thereby incomes.

Medium-Term Prospects

xix. In contrast to the poor growth performance throughout the 1970s, real GDP could grow at 4% per annum in the medium term if appropriate policies are followed and the requisite resources secured. Public investment will need to increase on the order of 12% annually in real terms, if this higher potential is to be realized. Associated recurrent expenditures will also need to expand commensurately to satisfy the operating and maintenance costs of the development budget.

xx. The proposed expenditure levels will require major efforts in resource mobilization. Nepal's excellent performance in this respect must not be allowed to slacken despite recent setbacks. One area where potential exists for raising revenues is that of agricultural land taxation which has declined steadily as a percentage of agricultural output. Aside from agricultural taxes, efforts will need to concentrate on improving tax administration through streamlining the tax department's working procedures, building up the number of tax administrators, and revising the legal codes. A potential source of new financing (that has hitherto been a drain on the budget) is the surplus that could be generated from improving the performance of public enterprises.

xxi. The medium-term balance of payments prospects are mixed. Merchandise exports will probably suffer from the reduced demand for rice from India, and transshipment problems will continue to hamper exports to third countries. Meanwhile, imports will need to expand more rapidly to fulfill development needs. Tourism earnings and private transfers will only offset part of the deterioration in the trade balance, and the current account deficit will likely rise to 8% of GDP from the present 3%. Foreign assistance will, therefore, need to grow rapidly, perhaps on the order of 15% annually in real terms. While this would be quite high, it would, nevertheless, represent a decline from recent experience.

xxii. The most disturbing element of Nepal's prospects in the medium term is the need to squeeze already very low consumption levels in order to generate the resources for investment. Moreover, evaluated against a much longer time perspective, growth of 4% offers only the most distant prospects of alleviating poverty in Nepal. Even by the year 2000, for example, about one-half of the population would be below or just at the minimum subsistence levels compared with a projected one-quarter for other low income countries.

xxiii. In this context, present economic policies and investment programs appear to represent an uphill struggle merely for economic and ecological survival, and it is unclear whether such policies would necessarily lead to the type of restructuring of the economy required to establish a basis for more rapid, long-term growth. While at this time, Nepal's comparative advantage lies clearly with agriculture, in the long run, its future hinges on the development of a substantial industrial sector, particularly one based upon labor-intensive techniques. At this stage, action should concentrate on establishing the preconditions for industrial progress such as: providing the right kind of financial incentives; research on the areas in which Nepal might develop comparative advantage and on the technical, financial, and marketing implications of ventures in these areas; streamlining of the administrative machinery dealing with industry; and a systematic effort to upgrade technical, administrative, and managerial skills. Simultaneously, consultations should be held with governments in neighboring countries to improve the conditions for access of Nepalese goods into these markets. As far as the domestic market is concerned, industrial progress will depend on growth in the rest of the economy, primarily in agriculture. Such growth is, of course, also needed to provide the resources for gradually increasing industrial investment. Unless efforts are mounted soon to address these long-term concerns, Nepal and the donor community may find themselves, several decades hence, still searching for a vehicle to move the economy beyond subsistence.

External Assistance

xxiv. Nepal's use of foreign assistance has risen rapidly in recent years. Under the Fifth Plan, disbursements have grown at 28% annually in current terms and presently exceed \$100 million. Donors now include 10 major bilateral sources and 4 multilateral agencies, and their programs have shifted away from transport infrastructure towards agriculture and power. In 1976, the Nepal Aid Group was formed to provide a forum to help coordinate the increasing level and complexity of assistance in line with HMG's development priorities. Local meetings between HMG and donors have also proven to be particularly useful in sharing views on specific problems or selected programs.

xxv. Nepal's development programs will continue to depend upon large amounts of foreign aid. Additional project aid is needed to help finance the acceleration in investment. In addition, to help compensate for the limited prospects for raising domestic resources, donors could assist by financing increased proportions of local costs. However, to minimize absorptive capacity constraints, donors are encouraged to implement their projects through the existing administrative infrastructure, and to make greater use of sector credits to support interrelated activities that would ordinarily not be suitable for financing on a project-by-project basis. On its part, HMG is advised to utilize available technical assistance to the extent possible to help alleviate the widespread shortages of technical and administrative manpower.

xxvi. It is unlikely that Nepal will be able to increase its resource mobilization efforts sufficiently to finance the domestic costs of both an accelerated investment program and the country's pressing recurrent expenditure requirements, particularly in the social sectors. Donors are, therefore,

urged to consider increasing commodity aid in addition to the annual average \$225 million required solely to sustain investment in 1979/80-1981/82. Commodity aid presently comprises 5% of total aid flows to Nepal, which is far less than is needed considering Nepal's poverty and isolation. In addition to rendering general revenue support, such aid is relatively quick-disbursing and provides donors with flexibility to respond to Nepal's overall needs. For example, relieving the shortages of fertilizer, steel, and cement would remove serious physical constraints on the nation's development efforts. In addition, consideration should be given to a food assistance program in view of the recent poor harvest. Such assistance should include the coincidental financing for distribution from the port to the Hills, since distribution costs are likely to far exceed the value of the food itself. In formulating such programs, great care will have to be exercised to cope with the many administrative complexities and adverse economic consequences that might arise. Donors might also consider providing other types of commodity assistance which would help Nepal to meet directly other basic needs, such as education materials and medical supplies. There is strong justification for such assistance, given their likely beneficial impact in mobilizing the peoples' energies in a development effort that very often promises only distant benefits.

Vice: + detail 11/6/73

Discussion with King, Pas, & Cas

- 1. Need to develop a pipeline of F&A projects

Asst: King

- Prime Minister
- Foreign Minister

Reviewed with each Nepal's devel. prog.

- a. Discussion of monetary units & regions
- b. Create a diffusion of investment to ensure better balanced development with less emphasis on Kathmandu & more on Hills
- c. Requirement for expanding productivity of Hill peoples thru best to find 7000+ above. (Agricultural Grant) 7000+ down to hillside
- d. North-south corridors with roads to increase trade mobility

The King was articulate, well-informed & an political astute (last yr visited 74 of 75 districts) seeking to learn for himself the needs of his people (Hill peoples priority requests: drinking water, health, education, etc. as; cement, doctors - "the government investment is not turned to the needs of the people for info on how to increase production". The King apparently lacks confidence in

Questions

- 1. How will Hill pop (50+27% total) benefit from development invest-program (in 3rd Plan urban pop, 42% total, need 4027 investment) ^{despite reports in Terai + elsewhere ^{the inv. has been} less than sufficient to maximize prod + raise agri output & level of pop. inv.}
- 2. What specifically can be done to raise productivity of Hill peoples (despite increasing infertility of the soils) so as to meet pop growth + reduce migration to the unsettled lands of the Terai
- 3. Do they agree with our leading strategy:
 - a. Emphasis on productive sectors of agri + forestry & both are part of a mini
 - b. Integrated rural + rural devel prog, particularly in Hills
 - c. Small & medium scale + gov-watering
 - d. Feder roads connecting Hills & Terai in support of productive invest
 - e. Telecom + link country pd + soc.

Two main streets of (with what many think of as a weak formal
ministry) he has tended to build up a staff of bright young men in
the "Palace" who are probably responsible for the authority of the
permanent secretaries in the ministries, leading to what is
said to be very poor morale.

It is alleged the King is "snooty", unwilling to see visitors (he
did not see Langel, has seen Kirk only once, + sees the British
Amb (the Gen. The diplomatic corps) less than is considered
The King recognizes their limited "absorption" capacity + the desirability
of providing indigenous ^{Foreign Secretary} ^{Foreign Secretary}
Foreign ministers asked for help on Karachi financial study -
I said we would assist them.

532/5/20

OFFICE MEMORANDUM

DECLASSIFIED

APR 29 2013

DATE: February 8, 1972
CONFIDENTIAL

TO: Files

FROM: A. F. Kirk *Afk*

SUBJECT: NEPAL: Mr. McNamara's Discussion with the Prime Minister

1. Mr. McNamara met with the Prime Minister of Nepal, Mr. K. N. Bista, on Tuesday, January 25; this followed a brief courtesy call by Mr. McNamara on the Minister of Education, Land Reform, Food and Agriculture and Forests, the Hon. G. B. Karki. Messrs. Cargill and I attended both meetings.
2. After welcoming Mr. McNamara, the Prime Minister said that he hoped the World Bank, which was already helping Nepal a little, would show an even greater interest in the country's development. He stressed the importance of utilizing Nepal's river systems, particularly Karnali. India, he said, needed electric power, especially in U.P., and the development of the hydro potential of Karnali was the cheapest way of providing for such needs; a little sympathy from the World Bank would help greatly in this matter.
3. Mr. McNamara pointed out that if the market for the power was to be India, then proceeding with the project would depend upon that country's attitude. Mr. Bista referred to a recent visit to Nepal by K.L.Rao who had indicated India's interest in buying the power because it should be the cheapest available; Morarji Desai had also expressed the same opinion. Mr. Bista added that Karnali should be regarded as a regional project - it would help both countries. Nepal's only resources really were her rivers and forests; the revenue from the sale of power to India could be invested in other projects within Nepal.
4. Mr. McNamara's reaction to the foregoing was to stress his desire that people's hopes should not be raised and then be disappointed by the failure of the project to develop. He said that Karnali was a complex project, with the problem of India and Nepal making appropriate arrangements regarding the sale of the power and its fitting into the Indian power system. In addition, there were technical problems which were reflected in the differences between the two teams of experts - Nippon Koei and Snowy Mountain. Finally, of course, there was the sheer size of the financing required which would require the assistance of others in addition to the World Bank Group; while the Bank had considerable experience in putting together projects of this magnitude (e.g. Tarbela), he did not wish Nepal to have great expectations at this time. Meanwhile, there were a large number of projects in our lending program; so many, in fact, that he doubted if all could be done within the time contemplated.
5. Karnali was the first priority project, Mr. Bista replied. Nepal needed the Bank's help. The country was situated between two giants - it was very difficult to increase trade with China and India was apt to take advantage of small countries like Nepal. He acknowledged that Karnali would

President has seen

take seven years to complete (Mr. McNamara said probably ten years). Mr. McNamara asked if there were not other, smaller power projects capable of development from which power could be sold to India. The reply was an emphatic negative; Nepal does not need to submit to Indian suggestions on what power projects to develop. In reply to further questions from Mr. McNamara, Mr. Bista said that he did not think any Indian group was studying in any detail the possibility of India utilizing the Karnali power. He went on to say that India/Nepal relations had deteriorated two years ago when he had required the withdrawal of Indian checkpoints, but now, with the completion of the Trade and Transit Treaty, relations were much better and the GOI was prepared to listen to Nepal. Nepal had no alternative but to be neutral between her two big neighbours, but Mr. McNamara's good offices could help so far as India was concerned. Nepal, he went on, had not asked GOI regarding World Bank assistance. He felt that the World Bank should look after the interests of the smaller less developed countries; Mr. McNamara said the Bank indeed was looking after these countries, but that Nepal had to discuss Karnali with India since the latter had to pass the bill.

6. The discussion then turned to subjects other than Karnali. Mr. McNamara said the World Bank Group was interested in many projects including, specifically, tourism and feeder roads. To Mr. Bista's suggestion that IFC become associated with NIDC by providing funds and expertise, Mr. McNamara said he doubted if IFC could be of assistance, given the fact that NIDC was owned by HMG. He understood that the Asia Development Bank had also expressed an interest in helping NIDC, but the World Bank Group could assist too, if needed. He stressed the need for institution building, as in highways, and of the Bank's willingness to help in this area. Mr. McNamara then expressed surprise that the Prime Minister and others in HMG had not raised with him Nepal's need for assistance in social fields, such as water supply and education. Mr. Bista did not answer directly, but described the Government's new education plan, with its stress on vocational training in the light of the expected manpower needs of Nepal. He also referred to land reform measures introduced by the Government.

7. Mr. McNamara then reiterated the Bank's interest in developing projects for financing, although he pointed out that to do all that was planned would place heavy burdens on the Ministries concerned. In nearly all projects financed by the Bank he would hope to see elements of institution building. He felt certain that Nepal would develop - this was, indeed, an exciting time for the nation. The Bank would help, he said, and if projects were delayed it would not be the result of politics (the Prime Minister had earlier made the point that politics affected certain bi-lateral aid and had referred to Mr. Woods' failure to agree to the air transport loan), but because of the Bank's concern that projects should proceed in a manner and at a pace that were in the best interests of Nepal. Problems would also arise as the Bank was only really starting its operations in Nepal, but this was generally so in such cases and Mr. McNamara was sure such problems would be overcome.

Copy for: Mr. McNamara, Mr. Knapp

Mr. Cargill/Mr. Votaw, Mr. Melmoth, Mr. Blobel,
Mr. Roulet, Mr. Baneth, Mr. Cleveland, Mr. Kraske (re Karnali),

NOTES ON VISIT TO NEPAL, JANUARY 25-27, 1972

1. The King (who died of a heart attack two days after I had met him) maintains control of politics and the Crown Prince of administration -- a frustrating relationship for the Crown Prince. The country, which, the King told me, had a literacy rate of only 2% when he and his father took over twenty years ago, has advanced far in the intervening period (literacy is now 11%) but remains decades away from democracy. Strong centers of dissent (particularly among the students and youth) are present in the society, but it is unlikely that any group would be sufficiently strong to overthrow the Government in less than ten years unless an outside power interjects itself into local politics.
2. The Government strategy is to give first priority to expansion of roads and then to follow this with agricultural development and an increase in education. Two-thirds of the country is mountains, two-thirds of the people live in the mountains, and only 15% of the land is cultivated. There was no substantial migration to the Terai until the 1960s when malaria was eradicated. The immediate requirement is for north-south communication which will permit horticulture and livestock to be grown in the hills.
3. The country's major resources are hydroelectric power for export; forests; and a highly attractive environment for tourists. Because of the heavy emphasis in the past on investment and infrastructure (in 1955 there were no roads linking the capitol with any other part of the country), GNP per capita increased only 0.5% per annum. (Additional infrastructure investment will be required in the next five years and, during that time, GNP per capita may not increase more than 2%.)
4. Tourism is increasing at the rate of 40% per annum but will soon be limited by a shortage of hotels (there are a total of 500 tourist beds today -- our project will increase this 50%). The potential for a further expansion is indicated by the fact that, of the 285 thousand tourists per year visiting India, only 45 thousand per year visit Nepal.
5. It was stated that Nepal has a potential capacity for the generation of 83 thousand megawatts of power (only 23% of this potential has been surveyed) and the Government visualizes that ultimately Nepal will be selling power to Pakistan, India, Bangladesh and Ceylon. I emphasized to the Prime Minister, and later to the Indian officials, the necessity for a joint study of India's need for power, particularly for the Karnali project, and the probability that at the earliest, this project could not be in operation in less than eight to ten years.
6. The Prime Minister:
 - a. Gave high priority to the Karnali project. I emphasized the necessity for an analysis of the Indian market, the requirement for technical studies relating to the location and construction of the dam, the necessity for detailed discussions (in lieu of the "agreement in principle") of the contractual provisions with India, the need to develop a financing plan --

and the probability that, at best, planning and construction of the project would require at least eight to ten years.

b. Described the measures the Government has undertaken to initiate land reform (ceilings have been imposed and one-third of the land acquired, 22 thousand hectares, has already been redistributed), to place ceilings on tenancy payments, and to provide for tenant security. He added the Government is now undertaking a cadastral survey, as limited interest changes, and is contemplating consolidation of land holdings and the introduction of anti-fragmentation laws.

c. Told me he was sixteen when he was married and he believed his wife was ten (her father was one of the country's leading astrologers; the astrologers set the days of the year on which marriages are permitted, and during some years, permit no weddings; Bhutto mentioned that the astrologers advised the King to cancel a luncheon for the Pakistanis on one occasion and, although the King lunched with his guests, he uttered not a word during the affair).

d. Emphasized the ease with which Nepal got along with China. Mao told the Prime Minister: "You must maintain cordial relationships with India." In contrast, India has been very difficult to deal with and frequently brings pressure to bear upon Nepal by restricting the rail movement of her exports to the ports and by delaying negotiations on trade agreements.

7. My impressions:

a. Flying over the hill country, which contains two-thirds of the population, one sees nothing but the heavily terraced, steep slopes, and one cannot fail to be impressed by the marginal character of the subsistence farming and the clear evidence of excessive pressure of the population upon the land. Each of the hill villages is isolated from each of the other villages, from its markets, and from the National Government. As the Prime Minister stated, each mountain, until it is linked to other mountains by roads and communications, is a separate nation.

b. The Nepalese are an extraordinarily fun-loving people, quite different in personality than the Indians.

c. It is difficult to account for the obvious difference between the Nepalese and the Black Africans in intelligence, speed of learning, "drive," and willingness to work hard (as one observer stated, "Give them an axe and a hoe and some forest land, and they will immediately start to clear and develop it.") In part, the explanation may be that they have inherited an ancient culture and a long tradition of self-reliance common to Hill People -- there is a noticeable difference between the personalities and work habits of the Hill People on the one hand and those of the Terai on the other.

d. The Nepalese educational system was modeled after that of India. It is now showing the same weaknesses and the Government knows it must take strong and positive steps to radically change the system: the plan to radically reduce the number of colleges (now numbering 42); to make admission to the colleges more selective; and to orient the educational program away from liberal and toward vocational and technical training. Already Katmandu has a surplus of liberal arts college graduates.

e. Because of the lack of political parties, the "would-be politicians" are attempting to politicize the university students. The students strike two or three times a year under the direction of outside leadership, but the groups are fragmented and, to date, have posed no real problem. However, it is a highly traditional society in which an impatient youth is growing increasingly restive -- the generation gap is greater than in other societies.

Robert S. McNamara